

Money Matters

A Publication of the House Fiscal Analysis Department

AN OVERVIEW OF GOVERNOR JESSE VENTURA'S FY 2000-01 BIENNIAL BUDGET RECOMMENDATIONS

This paper provides an overall description and detail of Governor Jesse Ventura's FY 2000-01 biennial budget recommendations. Part one is the summary section. Part two provides details organized according to the jurisdictions of the House of Representatives' fiscal committees and divisions.

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The Web page has fiscal staff publications from recent years as well as spreadsheets for the major finance bills for the past three sessions.

Part One. The Overall Budget Picture

The Governor is proposing a \$25 billion General Fund budget for the 2000-01 biennium. This amount includes \$485 million of tobacco settlement revenue that would be appropriated to establish endowment funds. In addition, the Governor is proposing \$1.1 billion in tax and other revenue reductions for the 2000-01 biennium.

The Governor also proposes changes in the budget for the 1998-99 biennium. These include a one-time \$1.1 billion sales tax rebate, appropriating \$461 million of tobacco settlement revenue to an endowment, and minor adjustments to various appropriations.

The new endowment funds proposed by the Governor would be established with the “settlement” or one-time tobacco settlement revenue. The Governor would appropriate \$946 million to the endowment in FY 1999, 2000 and 2001 and another \$364 million in FY 2002 and 2003. Investment income from the endowments would fund various medical research and health related programs.

[Table 1](#) summarizes the resources available and spending amounts for the current biennium (FY 1998-99) under both the November 1998 forecast and Governor’s recommendations, the Governor’s recommendations for the next biennium (FY 2000-01) and planning estimates for the FY 2002-03 biennium assuming the Governor’s recommendations for FY 2000-01 are enacted.

Table 1

General Fund: Fiscal Years 1998-2003						
(\$ in millions)						
	Nov. Forecast FY 98-99	Gov’s Recs FY 98-99	Gov’s Recs FY 00-01	Percent Change	Gov’s Recs FY 02-03	Percent Change
Balance Forward	\$1,995	\$1,995	\$1,434		\$1,155	
Current Resources	\$22,241	\$22,241	\$24,668	10.9%	\$26,627	7.9%
Revenue Changes		(\$1,078)	(\$1,116)		\$802	
Total Resources Available	\$24,236	\$23,158	\$24,986	3.1%	\$26,980	8.0%
Spending & Transfers	\$21,649	\$21,724	\$23,831	10.1%	\$25,806	8.3%
Balance before Reserves	\$2,587	\$1,434	\$1,155		\$1,174	
Reserves	\$1,634	\$1,434	\$1,155		\$1,150	
Budgetary Balance	\$953	\$0	\$5		\$24	

The General Fund is the largest single fund in the state budget and the one over which the Legislature has the most control. However, expenditures in all state funds for the FY 2000-01 biennium are projected to be over \$35 billion. Other funds include the Trunk Highway Fund, the Game and Fish Fund and the Health Care Access Fund.

[Table 2](#) illustrates a fiscal year by fiscal year comparison of resources and expenditures in the Governor's proposed budget. The FY 1999 numbers are based on Governor's recommendations rather than the November 1998 forecast because the Governor recommends more than \$1 million in state tax reductions and over \$450 million in spending increases in FY 1999. The combined spending already in law and recommended by the Governor result in FY 1999 spending increasing 12.7 percent over FY 1998, FY 2000 spending would increase 1.6 percent over FY 1999 and FY 2001 spending would increase 3.8% over FY 2000.

Table 2

General Fund Changes, Year by Year: FY 1998-2001							
Fiscal Years 1999-2001 based on Governor's Recommendations							
	(\$ in millions)						
	Nov 98 FY 98	Gov's Rec FY 99	Percent Change	Gov's Rec FY 00	Percent Change	Gov's Rec FY 01	Percent Change
Balance Forward	\$1,995	\$2,527		\$1,434		\$1,150	
Current Resources	\$10,745	\$11,497		\$12,074		\$12,594	
Revenue Changes		\$(1,078)		\$(664)		\$(452)	
Total Resources Available	\$12,739	\$12,946	1.6%	\$12,844	-0.8%	\$13,292	3.5%
Spending & Transfers	\$10,212	\$11,512	12.7%	\$11,694	1.6%	\$12,137	3.8%
Balance before Reserves	\$2,527	\$1,434		\$1,150		\$1,155	
Reserves	\$1,847	\$1,434		\$1,150		\$1,150	
Budgetary Balance	\$680	\$0		\$0		\$5	

The Budget Situation

The November 1998 *Forecast of General Fund Revenues and Expenditures* showed that projected revenues would exceed expenditures by \$3.325 billion. Of this amount, \$953 million occurred in FY 1999 and the remaining \$2.372 billion is in FY 2000-01. Of these amounts, \$461 million in FY 1999 and \$485 million in FY 2000-01 are one-time tobacco or "settlement" payments. Another \$243 million in FY 2000-01 comes from the permanent or annual tobacco settlement payments.

Expenditures for FY 2000-01 in the November forecast were based on planning estimates. The planning estimates included 2.5 percent inflation per year on almost all programs. The planning estimate inflation totaled \$798 million. In preparing budget recommendations, the Governor included three percent per year increases for salaries and adjustments for changes in rent and several other items. These "policy base adjustments" total \$108 million. By pulling out planning estimate inflation and adding back limited base increases, the Governor freed up another \$690 million to allocate for other purposes.

[Table 3](#) shows the differences between the Governor's budget recommendations and the projections in the November 1998 forecast. The Governor is recommending changes in both the current biennium and the next biennium. The Governor's recommendations would allocate all available FY 1999 funds in FY 1999. However, the sales tax rebate would not be paid until after August 1, 1999 and the final amount available for a rebate would be determined on June 30.

Table 3

**Governor's Recommendations:
Change from November 1998 Forecast**

(\$ in millions)

FY 1999 Changes

1999 Sales Tax Rebate	\$1,087
Endowment for Tobacco Settlement Revenue (1999)	\$461
Convert Cash Capital Projects to Bonding	\$(400)
Spend Reserve in Tax Reform & Reduction Account	\$(200)
Other Adjustments	\$5

Net Changes - FY 1999

\$953

FY 2000-01 Changes

Individual Income Tax Changes	\$832
Sales Tax Changes	\$247
Other Tax Changes	\$6
Non-Tax Revenue Changes	\$22
Endowment for Tobacco Settlement Revenue (2000-01)	\$485
Reduce Motor Vehicle Plate Fees	\$287
K-12 Education Finance	\$329
Family & Early Childhood Education	\$(72)
Post Secondary Education	\$159
Property Tax Aids & Credits	\$(137)
Health & Human Services	\$(36)
Environment & Agriculture	\$35
Economic Development	\$12
Transportation	\$97
Judiciary/Criminal Justice	\$21
State Government	\$50
Debt Service	\$43
Budget Reserve	\$45

Net Changes - FY 2000-01

\$2,426

Caution should be exercised in using this chart. While it shows the difference between the Governor's recommendation and the expenditures shown in the November forecast, those forecast numbers include planning estimate inflation.

[Table 4](#) shows changes in the Governor's budget recommendations arranged by the jurisdictions of House fiscal committees. This chart compares the Governor's recommendations for the FY 2000-01 biennium to the base level numbers for those areas. The base numbers include caseload and technical adjustments but otherwise should be the same numbers that legislative committees assumed for these budget areas in the 1997 and 1998 sessions in the committee worksheets.

Table 4

General Fund Expenditures by Committee
FY 1998-99 Compared to Governor's Recommendations for FY 2000-01

	(\$ in millions)			
	Nov. Forecast FY 1998-99	Governor FY 2000-01	Dollar Change	Percent Change
K-12 Education	\$6,809.9	\$7,735.2	\$925.3	13.6%
Family & Early Childhood Education	\$377.6	\$467.7	\$90.1	23.9%
Higher Education	\$2,444.1	\$2,625.6	\$181.5	7.4%
Property Tax Aids & Credits	\$2,598.3	\$3,065.3	\$467.0	18.0%
Health & Human Services	\$4,782.4	\$5,366.7	\$584.4	12.2%
Environment	\$370.5	\$401.8	\$31.3	8.5%
Agriculture	\$116.0	\$122.3	\$6.3	5.4%
Economic Development	\$416.2	\$385.0	\$(31.1)	-7.5%
Transportation	\$151.6	\$251.1	\$99.5	65.6%
Judiciary/Criminal Justice	\$1,002.3	\$1,132.2	\$129.9	13.0%
State Government	\$753.9	\$710.4	\$(43.5)	-5.8%
Debt Service	\$545.2	\$578.7	\$33.5	6.1%
Budget Reserve	\$1,104.5	\$1,150.1	\$45.6	4.1%

Price of Government

State law requires the Governor to make recommendations on the percent of Minnesota personal income represented by the amount of revenue raised by state and local governments. State and local government revenues include all revenues from all sources (including fees) except those that are transferred from the federal government. Under the Governor's recommendations, state and local government revenue is estimated to be 17.4 percent for the FY 2000-01 biennium and 17.3 percent for the FY 2002-03 biennium. This compares to an estimated 17.7 percent level for the FY 1998-99 biennium. [Table 5](#) shows the estimated state and local revenues compared to estimated personal income in Minnesota.

Table 5

	Price of Government		
	Governor's Targets for FY 2000-01 & 2003-03		
	(\$ in millions)		
	FY 1998-99	FY 2000-01	FY 2002-03
Minnesota Personal Income	\$253,160	\$277,163	\$302,839
State Government Revenues	\$26,434	\$28,781	\$31,101
% of Minnesota Personal Income	10.4%	10.4%	10.3%
Local Government Revenues	\$18,393	\$19,468	\$21,348
% of Minnesota Personal Income	7.3%	7.0%	7.0%

Total State and Local Revenues	\$44,827	\$48,249	\$52,449
% of Minnesota Personal Income	17.7%	17.4%	17.3%

The Budget Process

A revised forecast of state revenues and expenditures will be released by the Department of Finance on February 26. At that time, the Governor may make supplemental budget recommendations regarding any changes in the forecast. The House must adopt a budget resolution within 15 days of the release of the forecast. The Ways & Means Committee must adopt budget targets for each finance committee within 14 days of the adoption of the budget resolution. The Legislature must also pass a concurrent resolution by March 15 that specifies the share of Minnesota personal income that will be collected to pay for state and local government services.

For more information on general budget issues, contact Bill Marx at 651-296-7176 or bill.marx@house.leg.state.mn.us.

Part Two. The Governor's Budget in Detail

Family and Early Childhood Finance

The Governor's FY 2000-01 budget recommends \$467.7 million for programs administered by the Office of Community Services in the Department of Education, Children & Families. This represents an increase of 23.9% (\$90.1 million) over the adjusted base budget for FY 1998-99. Even with the recommended increase in FY 2000-01, the Governor's General Fund budget recommendations are significantly lower in comparison to FY 2000-01 current law spending. The main reason for this decrease in General Fund spending is due to the Governor's proposal to refinance Basic Sliding Fee Child Care in FY 2000-01. The Governor's recommendations for Family & Early Childhood Education in detail:

Child Care & Early Education

- \$104 million forecasted increase from the General Fund for MFIP-S child care assistance. MFIP-S child care assistance is linked to welfare reform and is treated as a fully funded forecasted program. If this forecasted change is enacted, the General Fund spending for MFIP-S child care will have increased by 126% over the FY 1998-99 adjusted base budget for this program.
- \$30 million decrease from the General Fund for Basic Sliding Fee (BSF) Child Care. An equal amount of TANF Funds would replace the decrease in General Fund spending for BSF Child Care program to assure that the overall level of spending on BSF remains the same. This would be a temporary refinancing arrangement effective for only the FY 2000-01 biennium.
- \$5.8 million from non General Fund sources for a statewide data management system for child care assistance. This activity would be a one-time expenditure to assure Minnesota's compliance with federal reporting requirements for child care assistance.
- \$3 million increase from the General Fund for the Early Childhood Health and Developmental Screening program to cover the cost of the required screening components.

- \$400,000 decrease from the General Fund for match to the Part C/Infant and Toddlers program. With the proposed elimination of the state's match, this program will be entirely supported with federal funds. However, if federal funds become insufficient to meet demand, the state is obligated to provide the difference between the amount of federal funding received and the actual cost of Part C /early intervention services.

Community Support and Prevention Services

- \$2 million increase from the General Fund for After School Enrichment programs. The Governor also recommends setting aside a portion of the increased funds for state armories that offer youth programming.
- \$8.14 million to implement Governor Ventura's "truth in budgeting" principle in Community Education programs. If enacted, the base for these programs would no longer be determined using prior year funding as a starting point for budget deliberations. Rather the base for community education, adult basic education (ABE), extended day, early childhood family education (ECFE) and adult graduation aid would be determined using statutory aid formulas and forecast data. In another related initiative, the Governor recommends changing the ABE formula from 65 percent of the general education formula allowance to a dollar equivalent set at \$2,295 in FY 2000 and \$2,338 in FY 2001. This initiative would have no additional costs over current law or savings if the dollar equivalent in the formula is set to equal the general education formula allowance each year.
- \$5.653 million from the General Fund is transferred to the Department of Public Safety from the Department of Education, Children & Families for the Office of Drug Policy and Violence Prevention. This proposal reverses the transfer of this program to the Department of Education from three years ago by Governor Arne Carlson.
- \$700,000 decrease from the General Fund for the elimination of the Male Responsibility and Lead Hazard Reduction Programs. The Governor's targeted these programs for elimination because they unfairly benefitted a specific population.

Implications of the Governor's Budget Recommendations:

The Governor's FY 2000-01 budget for Family and Early Childhood Education programs is reflective of his belief in a limited government role in the lives of families. For the most part, the Governor maintains current spending. The largest change in the FY 2000-01 Family and Early Childhood Education budget is due to forecast and base adjustment changes in child care and community education programs.

The Governor's recommendations include no additional funding for welfare reform related programs such as BSF child care, transitional housing or adult literacy. Without additional funds, the budget for these programs may need to be restructured to target existing funds for a population that will get the generate the most return from these services. Any restructuring of these welfare reform related programs, however, needs to be accomplished without sacrificing Minnesota's ability to support welfare reform families seeking self sufficiency.

For more information on Family & Early Childhood Education Finance issues, contact Cynthia Coronado Templin at 651-296-5384 or Cynthia.Coronado@house.leg.state.mn.us.

K-12 Education Finance

For the FY 2000-01 biennium, the Governor recommends \$7.7 billion in state aid for K-12 education. This compares with the November forecast of current law 2000-01 K-12 education spending of \$7.2 billion, an increase of \$560.6 million, or 7.8 percent, from forecast to Governor's recommendation for the FY 2000-01 biennium. When compared to spending in FY 1999 of \$3.5 billion, the FY 2000 recommended spending of \$3.8 billion is an increase of

6.9 percent. Compared with that recommended FY 2000 level, the recommended FY 2001 appropriation of \$3.9 billion is an increase of 3.8 percent.

Education property taxes in the Governor's budget recommendations are essentially unchanged from current law. Property taxes for FY 2000 (the pay 1999 property taxes already being levied) decreased by \$23.7 million over FY 1999, or 1.1 percent, to \$2.2 billion. Property taxes for FY 2001 (payable 2000) in the Governor's budget are estimated to increase by \$53.0 million, or 2.4 percent over FY 2000, to \$2.3 billion. The Governor's FY 2001 recommended levy amount is \$2.6 million less than current law levies for FY 2001.

The following summarizes the Governor's budget initiatives, with the costs expressed as a biennial total, unless otherwise noted:

General Education - The Governor recommends that the basic formula amount increase each year by approximately 2.5 percent. For FY 2000, the formula would be \$3,618, and for FY 2001, would be \$3,779. There are two components to the \$161 increase between FY 2000 and FY 2001: \$94 represents the 2.5 percent increase, and \$67 represents the roll-in of the district cooperation per pupil revenue.

- \$150.4 million for class size reduction programs targeted toward grades K-3 achieving a 17:1 student to teacher ratio. The revenue is equal to \$185 per kindergarten pupil and \$370 per pupil in grades 1-3. Districts will request funding from the Department showing how the funds will be used to meet the target. Districts already achieving those ratios will be allowed to apply for waivers to spend the funding in other ways to improve student achievement.
- \$13.4 million to pay for increased operating referendum equalization. Class size reduction expenditures by school districts are expected to generate additional lease levy costs for school districts (\$14.2 million in FY 2001). To offset that levy increase, the Governor has proposed an increase in operating levy equalization, which will result in a concurrent levy decrease. The equalization level increases from \$350 in FY 2000 to \$415 in FY 2001, \$455 in FY 2002 and \$465 in FY 2003 and later.
- \$592,000 savings from allowing equalized operating referendum and integration aid to follow pupils to charter schools and nonresident districts.
- \$16.9 million to increase the Basic Skills Limited English Proficiency revenue cap. Also, require a reserve account in FY 2000 and later for Basic Skills revenue, and eliminate the \$22.50 match required for Basic Skills Assurance of Mastery revenue.
- \$53.6 million to insure continuation of learning year pupil units, which is slated to be sunset at the end of FY 1999. \$3.8 million for additional Learning Year grants. \$586,000 in savings due to changes in the calculation of learning year pupils to account for three additional days in the school year.
- \$8.5 million to increase the pre-kindergarten pupil weighting from 1 to 1.25. Since these students are special education pupils, this change results in a reduction in the cross-subsidization of those students with general education revenue from other sources.

General Education programs recommended for elimination:

- Transportation Safety, savings \$2.7 million
- Wide Area Transportation Program, savings \$100,000

Special Programs

- \$59.6 million to increase the regular special education revenue cap in FY 2000 and FY 2001. For FY 2002 and later, the program growth factor for regular special education revenue is increased from 1.0 to 1.25.
- \$28.7 million for excess cost special education excess cost revenue, as a result of reducing the excess cost threshold from 5.7 percent of general education revenue to 4.36 percent. In FY 2002, establish a statewide excess cost revenue cap similar to that for regular special education aid. The growth factor for the statewide excess cost revenue cap would be 1.044 in FY 2002 and 1.02 in FY 2003 and later.

Special Education programs recommended for elimination

- ASL: Teacher Education Hearing Impaired, savings \$25,000
- Mexican Origin Education Grants, savings \$75,000
- Lay Advocates Program, savings \$10,000
- Options Plus Grants, savings \$150,000
- Homeless Student Aid, savings \$96,000

Lifework Development - \$6.7 million above the current base of \$7.8 million to redesign the Education and Employment and Transitions program to allow greater discretion in program planning and aid distribution.

Lifework Development programs recommended for elimination:

- Basic Secondary Vocational Aid, savings \$16.4 million
- Work Study Student Compensation, savings \$100,000
- Voluntary InterAgency Intervention Demonstration Projects, savings \$500,000

Facilities and Technology - No new initiatives.

Facilities and Technology programs recommended for elimination

- Historic Building Revenue, savings \$460,000 aid, \$90,000 per year in levy.

Education Excellence

- \$15 million in Graduation Standards Support, an increase from the \$5 million base funding, for support of statewide testing, the Clearinghouse of Best Practices and the Graduation Standards Curriculum Repository.
- \$1.0 million for the Minnesota Learning Academy to provide teachers, administrators and librarians training in the use of technology and its integration into learning activities and the implementation of the graduation rule. The Academy was initiated with \$2.0 million in the FY 1998-99 biennium.
- \$800,000 for Residential Academies to supplement the \$2.1 million in base funding already allocated.
- \$900,000 to establish a network of regional partnership centers on the campuses of the University of Minnesota to provide K-12 schools with higher education resources, initially in the areas of graduation standards implementation, early childhood basic literacy and school retention and transition.

Education Excellence programs recommended for elimination

- School Enrichment Partnership Grants, savings \$500,000

Other Programs

- \$3.1 million to fully fund nonpublic pupil aid formula, which had been prorated.
- \$284,000 for nonpublic pupil transportation, to eliminate the impact that changes in the general education formula have on nonpublic transportation revenue due to the roll-in of district cooperation and the roll-out of training and experience revenue.

Academic Performance programs recommended for elimination

- Family Connections Aid, savings \$500,000

Nutrition

- \$5.9 million for the “Fast Break for Learning” program, which will provide grants to schools, primarily those in schools which are required to provide breakfast under current law, to subsidize the cost of school breakfast programs. Schools in the program must provide \$1 for every \$3 provided in state aid, through the charging of fees to students not eligible for free or reduced lunch.

Nutrition and Other programs recommended for elimination

- Summer Food Service Aid, savings \$30,000
- School Breakfast Program, savings \$912,000

Libraries

- \$3.4 million for Regional Library Telecommunication Aid., to allow access and connectivity with the Minnesota Library Information Network, other databases and Internet resources.
- \$1.4 million to supplement the current \$15.6 million in Basic Library Grants.

Library programs recommended for elimination

- Librarians of Color Grants, savings \$110,000
- Children’s Library Services Grants, savings \$300,000
- Regional Library Outreach, savings \$500,000

Lola And Rudy Perpich Minnesota Center For Arts Education

- \$600,000 for Statewide Professional Development, allowing the Center to provide professional development in the arts for graduation standards implementation and other activities.
- \$965,000 for information technology improvements.
- \$200,000 for additional instructional programs and basic residential services, such as transportation and safety.
- \$244,00 for general administrative services and facilities functions, including \$100,000 for capital repair and replacement costs.

Minnesota State Academies for the Deaf and Blind

- \$510,000 to support and enhance educational programming in relation to students' career development and life skills.
- \$460,000 to provide reading, writing and math remediation services to students.
- \$680,000 to maintain the existing computer infrastructure and to integrate technology into the classroom.
- \$150,000 for ongoing repair, maintenance and asset preservation to Academy facilities.

Department of Children, Families and Learning

- \$815,000 to upgrade the computer servers in the agency which are used for data reporting by schools on student achievement, student data and district financial data.
- \$240,000 to develop an Internet server to facilitate transferring student transcripts between school districts, and between school districts and higher education institutions.
- \$684,000 for six additional information technology/program finance staff positions in the Department to work on aid calculation and payment systems, and to develop a comprehensive technology/data management operating and strategic management plan.
- \$2.0 million for litigation costs associated with the education adequacy/desegregation lawsuits. An additional \$4.2 million in FY 1999 is requested for the same purposes. If mediation is successful, some of these requested funds would not be needed.
- \$25,000 for technology upgrades at the Minnesota Library of the Blind and Physically Handicapped.
- \$300,000 of the Governor's class size reduction funding is for additional staff in the Department to administer the class size reduction program.
- The Governor is also recommending changing the name of the Department to the Department of Education, Children and Families.

Implications

Total per pupil revenues for K-12 education programs will increase from \$6,861 per pupil in FY 1999 to \$7,143 per pupil in FY 2000, and \$7,367 in FY 2001 under the Governor's budget recommendations, increases of 4.1 percent and 3.1 percent, respectively.

Some of programs which were recommended for elimination by the Governor are in areas in which there are other basic programs which received additional funding. These changes may allow additional flexibility for spending state aid.

For more information on K-12 Finance issues, contact Greg Crowe at 651-296-7165 or Greg.Crowe@house.leg.state.mn.us

Higher Education Finance

The Governor's budget proposal for higher education recommends total biennial spending of \$2.626 billion for the FY 2000-01 biennium. This represents an increase of \$247.6 million (10.4%) over the adjusted base budget for FY 2000-01. Looked at another way, this represents an increase of \$181.5 million (7.4%) over FY 1998-99

appropriations. The difference in these two ways of presenting the increase results from the removal of one time appropriations made during the FY 1998-1999 biennium from the base budget, as well as technical adjustments to the base from items such as enrollment changes and reduced pressure on the state grant fund due to changes in federal funding of financial aid. [Table 6](#) summarizes the current biennial appropriations, as well as the adjusted base budgets and Governor's recommendations for the FY 2000-01 biennium.

Table 6

Higher Education Budget: Fiscal Years 2000-2001 Base Budgets and Governor's Recommendations (\$ in thousands)				
	FY 1998-1999 Appropriations	FY 2000-01 Adjusted Base	FY 2000-01 Governor's Recs	FY 2000-01 Governor over Base
HESO	278,508	281,535	285,478	3,883
Mayo	2,431	2,564	3,183	619
MnSCU	1,051,636	1,011,835	1,133,148	121,131
U of M	1,111,548	1,082,057	1,203,839	121,782
Total	2,444,123	2,377,991	2,625,588	247,597

Specific spending recommendations by account are:

Higher Education Services Office (HESO) - For the Higher Education Services Office the Governor recommends a total biennial appropriation level of \$285.5 million. This represents an increase of \$3.8 million (1.3%) over the adjusted base, or \$7 million (2.5%) over FY 1998-1999 appropriations. Because of increases in the federal PELL Grant program during the FY 1998-1999 biennium (to a current maximum grant of \$3,125), demand on the State Grant Program (which piggy-backs off the federal formula) is substantially reduced, both in the current biennium and in the FY 2000-01 biennium. This allows the Governor to recommend a variety of technical and inflationary increases to the State Grant Program which together, cost about \$12 million, while only increasing agency spending by \$3.9 million over FY 1998-1999. For HESO in FY 2000-01 the Governor recommends:

- \$8.2 million for the State Grant program. The Governor recommends increasing the formula allowance for public tuition and fees, as well as the Private College Cap, by 3% annually to cover general inflationary costs on tuition. Because of the increase in PELL Grant levels, which saves the State Grant Fund \$9.1 million for the biennium, and the sunset of a nursing grant program, the base of the State Grant program actually goes down by \$350,000 for the biennium even though the Governor invests \$8.2 million to enhance student awards.
- \$500,000 in additional Work-Study funding.
- \$775,000 in additional funding for the MINITEX inter-library loan system. \$515,000 is to cover one-time costs of moving this program into the new Minnesota Library Access Center, while \$260,000 is for increased operational costs.
- \$1.5 million for additional telecommunications costs through the Learning Network of Minnesota (formerly referred to as the Telecommunications Council).

- \$900,000 for the Minnesota Library Information Network (MnLINK) gateway operations. This is an on-line library system that is designed to replace both the PALS (MnSCU) and LUMINA (U of M) electronic library systems, and also serve K-12, private college, government, and public libraries. \$12 million in one-time funds were appropriated in the FY 1998-1999 biennium for construction of this system.

Minnesota State Colleges and Universities (MnSCU) - For the Minnesota State Colleges and Universities the Governor recommends a total biennial appropriation level of \$1.133 billion. This represents an increase of \$121.3 million (11.9%) over the adjusted base, or \$81.5 million (7.8%) over FY 1998-1999 appropriations. For the FY 2000-01 biennium the Governor recommends:

- \$8 million for Workforce Training. These funds are to enhance MnSCU's ongoing customized training efforts and outreach partnerships with critical businesses and industries in the state. MnSCU must coordinate use of these funds with the Mn Job Skills Partnership and with the Department of Economic Security to prevent duplicative efforts and to ensure best use of state resources.
- \$8 million for improved student services such as advising for retention and disability services.
- \$77.7 million for compensation. This includes \$55.6 million for 3% annual wage inflation for all employees and \$22.1 million for an additional 2% annual increase for faculty.
- \$4.7 million for an improved technology infrastructure. This includes items such as Y2K issues, the Student Information System, the Virtual University and the ISEEK career database program.
- \$20 million is to shield MnSCU from precipitous budget declines due to enrollment losses from semester conversion and other factors beyond MnSCU's control.
- \$3.9 million in additional operating funds for non-routine maintenance and capital repair and replacement.

University of Minnesota (U of M) - For the University of Minnesota, the Governor recommends a total biennial appropriation level of \$1.203 billion. This represents an increase of \$121.8 million (12.2%) over the adjusted base, or \$92.3 million (8.3%) over FY 1998-1999 appropriations. For the FY 2000-01 biennium the Governor recommends:

- \$20 million to enhance Undergraduate Education. This money is to hire faculty, pay support costs, improve classrooms, improve library services, and increase undergraduate research and study abroad opportunities.
- \$5 million for Health Professional Education and Medical Research. These funds are to assist the Academic Health Center as it changes to focus more on community-based care.
- \$10.5 million in Public Service and Outreach including things like Extension outreach for farmers, ISEEK, the Virtual University, digital library services, and technology transfer.
- \$16.7 million for increased operational costs of new facilities that are coming on-line, as well as increases facilities maintenance.
- \$70 million to cover compensation inflation for the biennium.

In addition, the Governor sets up a ten year endowment at the Minnesota Medical Foundation, using \$350 million from tobacco settlement proceeds. The income from this endowment would go to pay for graduate health and medical education at the University. Another \$100 million in tobacco proceeds goes to the Medical Education and Research Costs (MERC) Endowment, which covers educational costs at teaching hospitals around the state.

Mayo Foundation - For the Mayo Foundation, the Governor recommends a total biennial appropriation of \$3.2 million. This represents an increase of \$619,000 (24%) over the adjusted base. For the FY 2000-01 biennium, the Governor recommends:

- \$619,000 to provide increases to each of the 3 capitation grant programs in the Mayo account. This increase reflects the rapid rise in the cost of medical education.

For more information on Higher Education Finance issues, contact Doug Berg at 651-296-5346 or Doug.Berg@house.leg.state.mn.us.

Health and Human Services Finance

The Governor recommends a General Fund biennial budget of \$5.366 billion for Health and Human Services programs and activities. The Governor recommends an additional General Fund appropriation of \$960.0 million to establish three endowments related to Health and Human Services: the Family Self-Sufficiency Endowment (\$600.0 million), the Local Public Health Endowment (\$260.0 million), and the Medical Education and Research Endowment (\$100.0 million). The Governor recommends that one-time Tobacco Settlement Revenues (\$1.3 billion) be earmarked for deposit into these endowment funds for fiscal years 1999 through 2003; the remaining \$350.0 million has been allocated in the Higher Education budget for the Minnesota Medical Foundation.

Department of Human Services - The Governor proposes a General Fund biennial budget of \$5.2 billion for the Department of Human Services. The Governor recommends an increase of \$117.5 million for FY 2000-01. Of the increase in FY 2000-01, \$83.2 million (70.8%) is attributable to payment rate increases for hospital facilities, health care providers, and staff compensation and \$16.5 million (14.0%) to fully-fund the Senior Drug program through FY 2001. Projected spending increases are offset by \$22.5 million in refinancing mechanisms and \$4.7 million from the state Temporary Assistance to Needy Families (TANF) reserve.

The Governor also recommends a \$150.3 million increase out of the TANF reserve. The Governor proposes to use federal TANF monies instead of General Fund dollars for the Basic Sliding Fee program (\$60.0 million) and the Community Social Services Act (\$30.0 million). These refinancing decisions are driven by the growth in unencumbered funds in the TANF reserve account, which remains in the U.S. Treasury not the state's coffers. The possibility exists that the federal government may recapture unexpended funds carried-forward from prior years when funding for the TANF block grant is reauthorized in FY 2003. These recommendations do not increase base funding for these programs but simply transfer General Fund obligations to federal resources on a temporary basis. In effect, these initiatives allow the Governor to spend down the TANF reserve and leverage \$90.0 million in General Fund dollars for other purposes. The Governor also proposes using funds from the TANF reserve to reduce caseloads for statewide Minnesota Family Investment Program employment services counselors (\$20.2 million), to supplement the Welfare-to-Work grants program (\$10.0 million), and to continue funding for Concurrent Permanency Planning (\$19.4 million).

The Governor proposes a biennial budget of \$299.9 million out of the Health Care Access Fund including a net increase of \$9.9 million. Significant spending initiatives from the Health Care Access Fund include an increase of \$10.3 million to provide payment rate increases for hospitals, dentists, and other health care providers, \$2.4 million for caseload changes related to MinnesotaCare policy changes, and \$3.6 million to improve claims processing and case management

for MinnesotaCare. Repeal of the Medical Assistance “100-hour rule” results in savings of \$6.5 million to the Health Care Access Fund as MinnesotaCare enrollees shift to the MA program.

Significant budget initiatives include:

Minnesota Families Foundation - \$395.9 million to establish a public-private foundation with proceeds from the one-time Tobacco Settlement revenues. The non-profit foundation would fund activities that “would support self-sufficiency and reduce long-term dependency on government.” The Foundation will operate on the interest earnings from the corpus of the funds which will grow to \$600.0 million in FY 2002.

Base Reductions - \$1.9 million in savings as a result of eliminating base level funding for nine initiatives that are limited in scope.

Children’s Grants

- \$19.4 million from the TANF reserve to continue concurrent permanency planning for children in out-of-home placement in fiscal years 2000 and 2001;
- \$4.5 million to leverage federal resources and provide community-based services as an alternative to out-of-home placement of children with severe emotional disturbances;
- \$2.9 million net increase to serve more children in the Adoption Assistance program; and
- \$1.7 million to provide ongoing operations funding for the Social Services Information System.

Basic Health Care Grants

- \$2.4 million net increase to provide funding out of the Health Care Access Fund (HCAF) for enrollment changes as a result of policy changes to the MinnesotaCare program;
- \$8.2 million in FY 1999 for a deficiency payment to provide additional funding caused by a delay in the receipt of federal funds and an increase in rates paid to health plans for the MinnesotaCare program;
- \$5.4 million in net savings as a result of developing cost-based Medical Assistance (MA) reimbursement systems for school districts and, thus, maximizing federal revenues for services that school districts are required to provide;
- \$0.9 million in net savings as a result of developing a Maximum Allowable Cost (MAC) program for multi-source prescription drugs not on the federal upper payment limit list and increasing prescription drug utilization review.
- \$7.0 million out of the General Fund and \$2.0 million out of the Health Care Access Fund to increase in-patient and out-patient payment rates for hospitals paid through Medical Assistance, General Assistance Medical Care, and MinnesotaCare;
- \$10.8 million out of the General Fund and \$3.9 million out of the Health Care Access Fund to increase payment rates paid to health care providers by 4.0 percent;
- \$8.4 million out of the General Fund and \$4.4 million out of the Health Care Access Fund to increase payment rates paid for dental services by 5.0 percent;
- \$65,000 out of the General Fund and a \$6.5 million decrease out of the Health Care Access Fund as a result of eliminating the “100-hour rule”, precipitating a movement of GAMC and MinnesotaCare enrollees to Medical Assistance;

- \$2.8 million in savings as a result of reviewing physical therapy, occupational therapy, and speech language pathology services for medical necessity;
- \$1.2 million out of the General Fund and \$267,000 out of the Health Care Access Fund to allow for the payment of telemedicine consultations in MA, GAMC, and MinnesotaCare;
- \$293,000 net increase out of the General Fund and \$82,000 in savings out of the Health Care Access Fund to expand eligibility for Medical Assistance and encourage work for people with disabilities;
- \$24.5 million to fully-fund the Senior Drug Program for the FY 2000-01 biennium;
- \$224,000 net increase to assist people who have limited English proficiency in accessing public assistance programs;
- \$2.4 million net increase to evaluate the state's purchase of health care for public program enrollees; and
- \$2.4 million net increase out of the Health Care Access Fund to improve claims processing and case management for the MinnesotaCare program.

State Operated Services

- \$10.7 million in net savings to the General Fund and a decrease of \$5.7 million to the Cambridge Bank Account to complete the downsizing of programs serving persons with developmental disabilities and increasing staff in the community to support individuals transferred from the state's Regional Treatment Centers;
- \$936,000 to provide increased funding for asset preservation and repairs to state operated facilities; and
- \$212,000 to provide a cost of living adjustment for transitional mental health services in the Moose Lake area.

Continuing Care and Community Support Grants

- \$30.0 million in savings to the General Fund and a \$30.0 million increase out of the TANF reserve to temporarily refinance the Community Social Services Act;
- \$3.0 million to increase enrollment in the Family Support Grant program;
- \$1.6 million net increase to assure federal compliance in the provision of home health services under the Medical Assistance program;
- \$56.8 million to provide staff compensation increases of 3% for nursing facilities, ICFs/MRs, and most continuing care providers;
- \$2.5 million net increase to provide a choice of enrollment in either the Alternative Care or the Medical Assistance Elderly Waiver (EW) programs for seniors who are eligible for EW but cannot afford to contribute to their long-term care services;
- \$3.1 million in net savings to adjust funding for the Alternative Care program consistent with caseload projections under current law;
- \$470,000 to cover the cost associated with raising the asset level which triggers a premium payment for enrollment in the Alternative Care program;
- \$1.8 million in net savings as a result of transferring service costs from the state-funded Group Residential Housing program to the state- and federally-funded home and community-based services waiver programs;
- \$1.5 million in savings by transferring approval of supplemental room and board Group Residential Housing expenditures to county human services agencies; and

- \$1.3 million net increase to implement and finance program changes to the Demonstration Project for People with Disabilities.

Economic Support Grants

- \$3.8 million in net savings to the General Fund and an increase of \$4.2 million out of the TANF reserve as a result of transferring funds from the state TANF reserve to the General Fund to offset funding increases and continue funding for legal non-citizens who are receiving the food portion of the Statewide Minnesota Family Investment Program or who are on the Minnesota Food Assistance Program;
- \$830,000 out of the General Fund and \$6.0 million out of the TANF reserve to restore the statewide MFIP exit level to 120% of the federal poverty guidelines;
- \$20.2 million out of the TANF reserve to lower caseloads for job counselors serving MFIP-S clients;
- \$10.0 million out of the TANF reserve to be transferred to the Department of Economic Security (DES) to supplement funding for the federal Welfare-to-Work grants program administered by DES;
- \$546,000 in net savings as a result of implementing a fee to offset the costs incurred by the Department for providing child support services;
- \$16.7 million as a result of delaying the transfer of payments for Battered Women's Shelter by one year;
- \$1.5 million in net savings as a result of moving individuals who qualify for MA by virtue of their eligibility for Supplemental Security Income from the state-funded General Assistance and General Assistance Medical Care programs to the state- and federally-funded Medical Assistance (MA) program;
- \$660,000 out of the TANF reserve to develop a performance management system for the Minnesota Family Investment Program; and
- \$7.7 million to provide on-going operational funding for the PRISM child support system.

Minnesota Department of Health - The Governor recommends a General Fund biennial budget for the Department of Health of \$153.4 million. The Governor recommends proposals related to tobacco use and prevention activities (\$15.0 million), the development of a Public Health Information System (\$4.0 million), and prevention and control of communicable diseases (\$2.2 million) that account for the largest share of the Department's General Fund initiatives.

The Governor also recommends a State Government Special Revenue biennial budget of \$51.0 million, including an increase of \$6.0 million to maintain and/or increase services provided by the Department. Finally, a biennial budget of \$14.7 million is recommended out of the Health Care Access Fund for the Department of Health.

Significant budget initiatives include:

Local Public Health Endowment

- \$100.0 million to establish the Local Public Health Endowment to fund initiatives related to tobacco prevention activities, public health infrastructure, and the needs of local Community Health Boards. The endowment will operate on the interest earnings from its corpus, which cannot exceed 5% of the balance in the fund; the endowment's corpus will grow to \$260 million in fiscal year 2003.

Medical Education and Research Costs (MERC) Endowment

- \$100.0 million to establish the MERC Endowment. Up to 5% of the interest earnings from the endowment's corpus will be transferred to the MERC Trust Fund to be used for medical education and research activities.

Health Systems and Special Populations

- \$243,000 from the Health Care Access Fund to continue to funding of the Regional Coordinating Boards, which is set to expire in fiscal year 2000;
- \$15.0 million to fund tobacco use prevention and reduction activities;
- \$311,000 out of the State Government Special Revenue fund, accompanied by a comparable fee increase, to continue to fund the Department's regulatory responsibility of HMOs;
- \$950,000 out of the State Government Special Revenue fund to conduct background studies on employees of applicable licensed settings; and
- \$360,000 decrease as a result of eliminating base level funding for the Lead-safe Certification Program, the State Lead Clean-up Equipment Grants program, and Dental Health Grants.

Health Protection

- \$2.4 million out of the State Government Special Revenue fund to conduct increased sample analyses required under the federal Safe Drinking Water Act;
- \$377,000 out of the State Government Special Revenue fund to pay for additional information systems costs and indirect costs;
- \$652,000 out of the State Government Special Revenue fund, which will be offset by increased fee revenues of \$125,000 annually to provide Food, Beverage, and Lodging inspection services;
- \$246,000 out of the State Government Special Revenue fund, which will be offset by \$165,000 in annual fee revenues, to implement the Food Manager Certification Program;
- \$156,000 out of the State Government Special Revenue Fund to takeover responsibilities for regulating certain radioactive materials from the federal Nuclear Regulatory Commission;
- \$2.2 million to pay for medications and vaccines to prevent or control the transmission of communicable diseases; and
- \$346,000 out of the State Government Special Revenue fund to purchase and operate a tandem mass spectrometry instrument for newborn metabolic testing.

Management Support

- \$1.4 million to provide additional funding for the Office of Health Care and Consumer Assistance, Advocacy and Information;
- \$4.0 million to develop a Public Health Information System; and
- \$1.8 million to expand the minority health improvement program.

Minnesota Veterans Homes Board - The Governor recommends a biennial base budget \$53.0 million for the Minnesota Veterans Homes Board. Significant budget initiatives include:

- \$2.0 million to fund statewide asset preservation and repairs for Minnesota's Veterans Homes.

Judiciary Finance

The Governor's budget recommends a total General Fund budget of \$1.15 billion for the FY 2000-01 biennium.

Supreme Court - The Governor recommends a biennial appropriation of \$51.489 million, an increase of \$2.943 million over the current spending level. New initiatives include the following:

- \$173,000 for interpreters, translate court forms, and to provide technical and staff assistance to self represented litigants.
- \$608,000 to improve judicial security, staff for chief justice, human resources and court services programs.
- \$2 million for an increase in civil legal service funding.
- \$358,000 to complete the community/justice system collaboration team that was partially funded last session.
- \$5.746 million for technology.
- \$114,000 to expand the use of alternative forums.
- \$287,000 for judicial branch infrastructure.
- \$440,000 for an increase for the victim offender mediation grant program.
- \$300,000 for the expansion of services for community dispute resolution.
- \$143,000 for research and to maintain law library collection.

Court of Appeals - The Governor recommends a biennial appropriation of \$13.174 million, an increase of \$707,000 over the current spending level.

District Court - The Governor recommends a biennial appropriation of \$161.397 million, an increase of \$16.219 million over the current spending level. New initiatives include the following:

- \$11.451 million for 18 judge units.
- \$433,000 for a salary supplement for judges (1998 laws, Chapter 390, Art V, Sec. 16). There is an additional supplement of \$14,000 for the Supreme Court and \$29,000 for the Court of Appeals.
- \$859,000 for increased coordination and supervision for guardians ad litem.
- \$642,000 for the expanded use of interactive video.
- \$800,000 for continued funding for the community courts.
- \$1.359 million for infrastructure changes.

Since the courts are separate branch agencies, the Governor treats them differently from executive branch agencies. The Governor does not make specific recommendations on their budget requests. Instead, the Governor's budget allocates a general increase of \$13 million for the biennium for the courts to recognize caseload increases. The courts' requests are \$16.4 million over the Governor's recommendations.

Tax Court - The Governor recommends a biennial appropriation of \$1.344 million, a decrease of \$275,000 from the current spending level. The decrease is due to a one time appropriation for FY 1998 only.

Board of Judicial Standards - The Governor recommends a biennial appropriation of \$476,000, a decrease of \$85,000 from the current spending level. The decrease is due to additional funding they received in the current biennium for legal expenses for one case.

Public Safety - The Division is responsible for seven programs (other programs in the agency are the responsibility of the Transportation Finance Division). The Governor recommends a biennial appropriation of \$99 million, an increase of \$624,000 from the current spending level (this figure includes all of public safety). New initiatives include the following:

- \$1.36 million for an 800 megahertz regional radio system. This funding is for the BCA, Emergency Management, Fire Marshall, and Alcohol Gambling and Enforcement programs.

Emergency Management

- \$2.074 million to cover projected state match obligations for federal disaster assistance.

BCA

- \$313,000 for MNET connections to laboratories in greater Minnesota.
- \$11.6 million for upgrades and expansion of the criminal justice data network.
- \$800,000 for increased lab costs related to DWI investigations, offset by an increase in the DWI reinstatement fee..
- \$673,000 for upgrades and expansion of the laboratory information management system.

Fire Marshall

- \$73,000 for fire safety, inspection and investigation capabilities.

Law Enforcement & Community Grants

- Transfers the functions and funding of the Office of Drug Policy from the Department of Education, Children, and Families.

Crime Victim Services Center - The Governor recommends a biennial appropriation of \$43.809 million. This is a new agency this year which combined the victim services programs from the Department of Corrections and the Department of Public Safety. New initiatives include the following:

- \$208,000 for computer system enhancements.
- \$100,000 to increase the emergency fund for crime victims.
- \$16.681 million reduction in FY 2000 for a one-year postponement of the battered women's shelter per diem transfer from the Department of Human Services, and \$109,000 in FY 2001 to administer the program once it is transferred.

Crime Victim Ombudsman - The Governor recommends a biennial appropriation of \$889,000, an increase of \$140,000 over the current spending level. New initiatives include:

- \$20,000 to develop a case management system.

- \$87,000 for an additional staff person.

Private Detectives Board - The Governor recommends a biennial appropriation of \$277,000, an increase of \$15,000 over the current spending level.

POST Board - The Governor recommends a biennial appropriation of \$8.832 million (this source of financing is from a special revenue fund). New initiatives include the following:

- \$60,000 for a minority recruitment video initiative to improve outreach to protected class individuals interested in law enforcement careers.

Auto Theft Prevention Board - The Governor recommends a biennial appropriation of \$5.433 million, an increase of \$2.2 million (this source of financing is from a special revenue fund). New initiatives include:

- \$1.67 million for an increase in grant funding.

Public Defense Board - The Governor is recommending a biennial appropriation of \$94.293 million, an increase of \$9.596 million over the current spending level. New initiatives include:

- \$4.844 million for comparable compensation for employees comparable to other state employees doing similar work with like years of experience.
- \$3.057 million for caseload equity.
- \$525,000 for a statewide connection project. This will connect the 50 percent of regional offices and part time law offices that are not connected.
- \$1.57 million for an increase funding for the public defense corporations. This appropriation will add positions and increase salary rates.
- \$330,000 for appellate case relief. The appropriation would fund two appellate lawyers, two law clerks, and a half time secretary.
- \$172,000 for a human resources director.

Implications

Since the Public Defender is a separate branch agency, the Governor treats them differently from executive branch agencies. The Governor makes no recommendation on their specific budget requests. Instead, the Governor's budget allocates a general increase of \$5.445 million for the biennium to recognize caseload increases. The Public Defender budget request is \$5 million over the Governor's recommendations.

Department of Corrections -The Governor recommends a biennial appropriation of \$698.677 million an increase of \$94 million over the current spending level. New initiatives by program include the following:

Institutions

- \$3.450 million for asset preservation and repair (also includes juvenile facilities).
- \$4.567 million for operating expenses for the expansion of the mental health and infirmary unit.

Juvenile Services

- \$280,000 for academic education at Red Wing.
- \$225,000 for vocational education at Red Wing.
- \$1.349 million juvenile female programs at Sauk Centre.
- \$3 million for population relief at Red Wing.
- \$700,000 for program expansion and aftercare services for juveniles leaving state facilities.

Community Services

- \$417,000 for probation and supervised release services.
- \$1.5 million for additional state agents and grants to counties for increased intensive community supervision.
- \$1.5 million for an increase in the Community Corrections Act subsidy for local correctional services.
- \$1.5 million for additional residential services (half-way houses) to address growing inmate populations.
- \$100,000 for an emergency housing initiative for offenders leaving state facilities.
- \$994,000 to expand the STS program.
- \$684,000 for county probation officer reimbursement. This is to maintain county probation officer reimbursement at the statutory 50 per cent level.
- \$7.805 million for statewide probation caseload/workload reduction.
- \$100,000 for community-based sex offender treatment.
- \$400,000 for programing for adult female offenders in the community.

Management Services

- \$4.626 million for technology improvements.

The Governor also recommends \$3.56 million in base reductions by eliminating the productive day grants and the judicial district grant program.

Implications: The base adjustment for the increase in the prison population is over \$ 46 million, which is more than the total of all the agency change items.

Ombudsman for Corrections -The Governor recommends a biennial appropriation of \$1.253 million, an increase of \$90,000 from the current spending level.

Sentencing Guidelines - The Governor recommends a biennial appropriation of \$1.157 million, an increase of \$277,000 over the current spending level. New initiatives include:

- \$200,000 to develop an electronic sentencing worksheet.

Human Rights Department - The Governor recommends a biennial appropriation of \$7.869 million, an increase of \$224,000 over the current spending level.

Uniform Laws Commission - The Governor recommends a biennial appropriation of \$75,000, an increase of \$4,000 over the current spending level.

Environment and Natural Resources Finance

Table 7

The Governor's Recommendations on Environment and Natural Resource Finance Comparison to FY 1998-1999 Biennium

FY 1998-1999		FY 2000-01		Percent Increase	
General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
\$378,935	\$774,251	\$402,826	\$901,530	6.30%	16.44%

Pollution Control Agency - For FY 2000-01 the Governor recommends a total budget of \$241.193 million, of which \$35.131 million (14.6%) is General Fund dollars. This is a recommended General Fund increase of \$7.496 million (27.1%) compared to the current biennium. Changes recommended by the Governor to the agency base budget include the following:

General Fund:

- \$206,000 increase for the administrative support of the Water Quality Wastewater Infrastructure Fund.
- \$800,000 increase for the continuing research of malformed frogs.
- \$2.0 million increase to supplement the Clean Water Partnership Grant Program.
- \$425,000 increase to implement or complete program development for mercury reduction strategies.
- \$1.5 million increase for studies to establish Total Maximum Daily Load Limits to protect water quality.

Petroleum Tank Release Cleanup Fund:

- \$1.1 million to continue the one-time Leasing Underground Storage Tank appropriation from the last biennial budget. This appropriation would remain in the base through FY 2003.

Multiple Fund Items:

- \$901,000 increase in General Fund dollars and \$2.221 million in Environmental Fund dollars for technical and financial support to counties to address feedlot issues.
- \$400,000 increase of General Fund dollars to provide an alternative to the vehicle emissions testing program which is proposed to be eliminated. The elimination of the emissions testing program will decrease the Special Revenue Fund appropriation by \$1.553 million.
- \$700,000 increase in General Fund dollars and an increase \$943,000 in Environmental Fund dollars for information system optimization.
- \$981,000 increase in Solid Waste Fund dollars to allow additional solid waste disposal facilities to be included in the landfill cleanup program. (\$291,000 reduction in Metro Landfill Contingency Fund dollars.)

- LCMR projects are recommended for a total of \$1.160 million.

Office of Environmental Assistance (OEA)- For FY 2000-01 the Governor recommends a total budget of \$48.398 million, of which \$41.763 million (86.3%) is General Fund dollars. This is a recommended General Fund increase of \$3.283 million (8.5%) compared to the current biennium. Changes recommended by the Governor to the agency base budget include the following:

General Fund:

- \$2.214 million to provide additional resources to achieve environmental protection and resource conservation goals.
- \$740,000 to further the environmental education goals outlined in the state plan (*A Greenprint for Minnesota*.)
- LCMR projects are recommended for a total of \$600,000.

Minnesota-Wisconsin Boundary Commission - For FY 2000-01 the Governor recommends that the Minnesota-Wisconsin Boundary Commission be sunset after FY 2000. The proposal provides \$70,000 in General Fund dollars in FY 2000 and \$0 in FY 2001. Also being eliminated is \$33,000 from the Natural Resources Fund in FY 2000 and \$34,000 in FY 2001.

Minnesota Zoological Garden (MZG) - The Governor proposes that the MZG no longer be operated as a state agency. The Governor recommends an increase in General Fund dollars to \$15.378 million for FY 2000-01 (an increase of 26.1% over FY 1998-1999.) Changes recommended by the Governor to the agency base budget include the following:

- The Governor recommends an increase of \$1.0 million for FY 1999 for an operation deficiency. A supplementary appropriation of \$1.5 million was given in the 1998 Legislative Session for operating deficit in FY 1997. The FY 1999 deficit is due to attendance levels not reaching forecasts.
- The governor is recommending an additional \$2.0 million in FY 2000 and an additional \$2.4 million (General Fund dollars) for the current estimated operational costs, and revenue lost from the free admission of students. The Governor is recommending that the \$2.4 million in FY 2001 be contingent upon MZG progress toward an alternate management structure. The MZG board would be required to submit a report to the Governor and the Legislature by Feb. 1, 2000 recommending legislative changes which would be necessary for the change of management structure.

Department of Natural Resources (DNR) – For FY 2000-01 the Governor recommends a total Department of Natural Resources budget of \$532.201 million of which \$271.327 million (49.0%) is General Fund dollars. This is a recommended General Fund increase of \$10.375 million (4.7%) compared to the current biennium. Changes recommended by the Governor to the agency base budget include the following:

The sunset of the Sustainable Forest Resource Act (SFRA) as of June 30, 1999 requires the removal of \$2.058 million in base level General Fund dollars. There is also a change item proposed by the Governor which provides \$1.5 million to continue the Forest Resources Council.

General Fund:

- \$3.0 million increase for the Red River Flood Water Mitigation.
- \$2.416 million decrease to eliminate spending on lower priority programs.
- \$793,000 increase to continue the effort to reach out to minority citizens.
- \$2.176 million increase to improve State Park operations.

- \$604,000 increase to convert the 800 MHZ radio system in the metro area.
- \$1.914 million increase to expand and enhance computer infrastructure.
- \$5.0 million increase to maintain and repair the public's infrastructure investment.
- \$410,000 increase to increase the Information Center's capacity to meet growing demands for information.
- \$2.707 million increase to develop customer service and business applications.
- \$515,000 deficiency in FY 1999 for the Lakeshore Lease Land appraisals.

Natural Resources Fund:

- \$2.2 million reduction in the Snowmobile budget to reflect the unrefunded tax from 1% to 0.75%.
- \$450,000 reduction to eliminate the personal watercraft surcharge of \$50.
- \$1.5 million increase to expand off-road vehicle facilities.

Game and Fish Fund:

- \$1.390 million increase to use the current and projected balances in wildlife dedicated accounts.
- \$2.044 million increase for additional resources mandated by the Federal Sport Fish Restoration Program.
- \$2.111 million reduction is incorporated to restrain spending to the resources currently forecast under current law.
- The Governor recommends expanding the Electronic Licensing System from a four county pilot to statewide implementation. Costs of \$800,000 in FY 2000 and \$1.9 million in FY2001 will be offset by savings realized by ending the paper license process and increased non-dedicated receipts.
- LCMR projects are recommended for a total of \$25.685 million.

Board of Soil and Water Resources (BWSR) – For FY 2000-01 the Governor recommends a total Board of Soil and Water Resources budget of \$40.313 million of which \$36.616 million (90.8%) is General Fund dollars. This is a recommended General Fund increase of \$2.588 million (7.6%) compared to the current biennium. Changes recommended by the Governor to the agency base budget include the following:

- \$2.860 million increase shift nine FTEs from bonding proceeds to the General Fund. It also adds two FTEs; a services director and a grants coordinator.
- \$1,015 million increase to provide better service and improved grants tracking by increasing computer support to local governments.
- LCMR projects are recommended for a total of \$2.395 million.

Citizens' Council on Voyagers National Park (CCVNP) – The Governor recommends the sunset of the council. \$25,000 of General Fund dollars is proposed in FY 2000 for costs associated with closing the administrative office.

Science Museum of Minnesota (SMM) - For FY 2000-01 the Governor recommends a total Science Museum of Minnesota budget of \$3.034 million of which \$2.434 million (80.2%) is General Fund dollars. This is a recommended

General Fund increase of \$134,000 (5.8%) compared to the current biennium. The only change to the base is the 3% salary inflation.

- Two LCMR projects are recommended for a total of \$600,000.

Academy of Science -For FY 2000-01 the Governor recommends a total Academy of Science budget of \$82,000 all of which is General Fund dollars. There is no change compared to the current biennium.

Legislative Commission on Minnesota Resources (LCMR) - The LCMR is recommending a total of 121 projects be funded for a total of \$42.25 million. (Some are included above.)

Agriculture and Rural Development Finance

Table 8

The Governor's Recommendations on Agriculture and Rural Development Finance Comparison to FY 1998-1999 Biennium

FY 1998-1999		FY 2000-01		Percent Increase	
General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
\$107,603	\$168,023	\$122,255	\$179,949	13.62%	7.10%

Department of Agriculture (MDA) -For FY 2000-01 the Governor recommends a total Department of Agriculture budget of \$164.320 million, of which \$44.440 (27.1%) is General Fund dollars. This is a recommended General Fund decrease of \$85,000 (-0.2%) compared to the current biennium. Recommended changes include:

General Fund:

- \$1.5 million increase for additional staff to perform regulatory and inspection services.
- \$900,000 increase to return the department's inspection and regulatory efforts to adequate levels.
- \$2.5 million increase for food safety.
- \$100,000 increase to establish a method by which laboratory equipment will be upgraded and replaced to meet laboratory standards.
- \$100,000 increase for the Environmental Cluster agencies to explore the possibilities of locating combined laboratory facilities in a state-owned building.
- \$160,000 increase to meet the increasing number of requests for reimbursement of livestock losses due to timber wolf depredation.

- \$200,000 decrease from the Ethanol Promotion and Education program; \$100,000 will be reallocated to the Ag in the Classroom (\$70,000) and Apiary inspection activities (\$30,000.)
- \$500,000 increase to meet increasing producer demand for information on diversification options for their enterprises as well as alternative agricultural products.
- \$1.070 million increase to continue research on feedlot technology alternatives and develop a public information and outreach program.
- \$3.464 million increase to establish information technology infrastructure; to continue Project Unity; and to equip office and field staff with computer equipment.
- \$100,000 reduction in Family Farm Payments (from \$99,000 to \$49,000.)

Environmental Fund:

- \$120,000 increase for the MERLA (State Superfund) program.

Animal Health Board - For FY 2000-01 the Governor recommends a total Animal Health Board budget of \$6.540 million, of which \$5.770 (88.3%) is General Fund dollars. This is a recommended General Fund increase of \$863,000 (17.6%) compared to the current biennium. Changes recommended by the Governor to the agency base budget include the following:

- \$300,000 in General Fund dollars for control of paratuberculosis.
- \$236,000 in General Fund dollars to identify and investigate Avian Pneumovirus in turkeys.

Minnesota State Horticultural Society (MSHS) - For FY 2000-01 the Governor recommends a total Minnesota State Horticultural Society budget of \$164,000 all of which is General Fund dollars. There is no change compared to the current biennium, nor are there any change items recommended.

Agriculture Utilization Research Institute (AURI) - For FY 2000-01 the Governor recommends a total AURI budget of \$9.060 million of which \$8.260 (91.2%) is General Fund dollars. This is a recommended General Fund decrease of \$90,000 (-1.1%) compared to the current biennium.

- There is one LCMR project reflected in the Governor's Budget with no recommendation.

For additional information on Environment or Agriculture Finance issues, contact Peter Skwira at 651-296-4281, or Peter.Skwira@house.leg.state.mn.us.

Jobs & Economic Development Finance

Overview: The Governor recommends combined General Fund appropriations of \$385.95 million for the 24 state departments, agencies, boards and councils under the budget jurisdiction of the Jobs and Economic Development Finance Committee. For all funds, the total of the appropriations recommended by the Governor is approximately \$1.6271 billion. This section summarizes the Governor's major budget recommendations.

Department of Trade and Economic Development- The Governor recommends a \$73.056 million General Fund appropriation in FY 2000-01. This amount is a reduction of \$836,000 from the base. The Governor's major General Fund recommendations are:

- \$5.0 million in increased funding for tourism marketing, research and partnerships.
- \$874,000 in increased one-time FY 2000 funding for the Journey, the Office of Tourism's travel destination system, to be matched at least 1:1 with private resources.
- \$480,000 in decreased funding through the elimination of rural job creation incentive grants program.
- \$6.230 million in decreased FY 2000-01 funding through the elimination of 10 pass-through grants. The grantees recommended for elimination, and the biennial funding reductions are:

Advantage Minnesota	(\$900,000)
County and District Agricultural Societies	(\$190,000)
Micro-Enterprise Technical Assistance	(\$500,000)
Rural Policy and Development Center	(\$500,000)
Metro Economic Development Assn	(\$310,000)
Women Venture	(\$530,000)
St. Paul Rehabilitation Center	(\$1.0 million)
Hennepin and Ramsey County CDCs	(\$200,000)
Community Development Corporations	(\$100,000) and,
Community Resources Program	(\$2.0 million).

The Department's budget also includes a one-time \$225,000 appropriation request in FY 2000 for the City of Virginia storm sewer project to be funded from the Minnesota Environment & Natural Resources Trust Fund. This project is recommended for funding by the Legislative Commission on Minnesota Resources.

Minnesota Technology, Inc.- The Governor recommends General Fund appropriations of \$16.210 million in FY 2000-01, a \$3.864 million reduction from base. All of the reduction is attributable to the recommended elimination of MTI administered pass-through grants. The grantees affected and the biennial funding reductions are:

- Minnesota Cold Weather Resource Center (\$200,000)
- Minnesota Project Innovation, Inc. (\$1.388 million)
- Natural Resources Research Institute (\$1.9 million)
- Minnesota Inventors Congress (\$150,000) and,
- Minnesota Council for Quality (\$226,000).

Minnesota World Trade Center Corporation - The Governor recommends that the Corporation's FY 2000-01 appropriation from the Special Revenue Fund be at the base level of \$955,000. The Corporation receives no General Fund appropriations.

Department of Economic Security - The Governor recommends an FY 2000-01 General Fund appropriation of \$73.471 million, a \$2.062 million increase over base. Also requested is a \$370,000 supplemental deficiency appropriation in FY 1999 for the Department's Workforce Service for the Blind Program. The Governor's major FY 2000-01 General Fund recommendations are:

- \$236,000 cash match to secure \$4.1 million under the new federal Juvenile Accountability Incentive Block Grant.
- \$1.6 million in additional funding for Workforce Services for the Blind.

- \$1.4 million in one-time funding in FY 2000, to be matched by the Minnesota Foundation, to convert the Communication Center of State Services for the Blind from analog to digital technology, and to move the Radio Talking Book Service to a new frequency.
- \$100,000 for repair and preservation of agency-owned buildings.
- \$1.27 million decrease in FY 2000-01 funding through the elimination of the Enterprise Zone incentive grants program.

The Governor recommends two additional major fiscal initiatives regarding the Department:

- \$16 million in FY 2000 and \$6 million in FY 2001 be transferred from the Dislocated Worker Fund to the General Fund. These transfers would be in addition to the \$3.5 million per year transfers in the current biennium, making the total FY 2000-01 transfer \$29 million.
- \$5 million in FY 2000 and \$5 million in FY 2001 be transferred from Temporary Assistance to Needy Families (TANF) reserves to the Department to support Welfare to Work programs. The \$10 million in TANF funds will replace \$10 million in federal funds that will be returned to the federal government for lack of state matching dollars.

Minnesota Housing Finance Agency - The Governor recommends a \$90.614 million General Fund appropriation in the FY 2000-01, an increase of \$16 million over base. The Governor's recommended program funding increases are:

- \$10 million to the Affordable Rental Investment Fund to give the MHFA additional resources to preserve federal-assisted affordable rental housing.
- \$6 million in increased funding for the Community Rehabilitation Fund to facilitate additional construction, acquisition and rehabilitation of affordable housing.
- Repeal MHFA's current administrative cost ceiling (currently set by state law at \$13.278 million in FY 99) and replace it with a detailed reporting requirement
- Consolidate the Home Equity Conversion Counseling Program with the Full Cycle Homeownership Services Program.

Department of Commerce - The Governor recommends that the Department's FY 2000-01 General Fund appropriation be \$33.676 million, an increase of \$2.491 million over base level funding. The requested increase would fund:

- \$90,000 in one-time dollars in FY 2000 to expand the department's web site and provide for on-line capacity for applications and fee collections.
- \$2.0 million in FY 2000 to redesign and re-engineer the department's data bases. These dollars would also be a one-time appropriation.
- \$189,000 for a casualty actuary position. These General Fund dollars would fund one-half of the position. The other half would be funded from the workers' compensation fund.
- \$212,000 for a EDP examiner position in the agency's financial examinations program. The position would be paid for by an estimated \$216,000 in additional fees generated from the work performed.

The Governor also concurs with the Department's plan to institute several fee changes resulting in a net non-dedicated revenue increase of \$2.12 million in the FY 2000-01 biennium. The plan includes:

- Increasing fees paid by several industries that are not covering the department's costs, specifically building contractors, campground clubs, currency exchange, insurance, and subdivided land;
- Eliminating the new (1997) transaction fees created in M.S. § 45.0295; and
- Revamping the current general assessment fee levied on financial institutions to make the department's regulatory assessments more user-fee based. This change is expected to be revenue neutral.

The Governor recommends funding for the Petroleum Tank Release Cleanup Program at base levels, with no new money for new initiatives and personnel. This program does not receive General Fund dollars.

Board of Accountancy - The Governor recommends that the Board receive General Fund appropriations at the base level of \$1.231 million in the FY 2000-01 biennium. The Governor also concurs with three fee changes the Board has put forth:

- Eliminating the \$50 fee for temporary individual licenses (no revenue impact);
- A new fee of \$50 for late license registration to improve compliance; and
- Increasing from \$50 to \$165 the fee for canceling an appointment for the CPA exam within 14 days of the exam date.

These fee changes are expected to generate \$19,000 in additional revenue in the FY 2000-01 biennium.

Board of Architecture, Engineering Land Surveying Landscape Architecture, Geoscience & Interior Design The Governor recommends a \$1.564 million General Fund appropriation for the board in FY 2000-01. This amount represents a \$93,000 increase over base. The increase would fund several operations changes, including new computer services and supplies, paying increased dues to national councils, paying pass through costs for examinations, and developing an improved examination for land surveyor license applicants.

The Governor also recommends that the board change its fee schedule from \$70 to \$104 for licenses and biennial renewals. The fee increases would raise an estimated additional \$570,000 in FY 2000 and FY 2001 to address past under-recovery of actual costs, and to recover the full costs of licensing in the FY 2000-01 biennium.

Board of Barber Examiners - The Governor recommends a General Fund appropriation at the base level of \$293,000 in FY 2000-01. The board is proposing several fee changes for license renewals in order to provide the same levels of service. The fee change proposals are: apprentices (from \$20 to \$35); registered barbers (from \$25 to \$40); shops (from \$35 to \$50); instructors (from \$35 to \$50); and schools (from \$200 to \$250). The Governor concurs with these fee changes which are expected to raise \$113,000 in additional revenue in FY 2000-01.

Board of Boxing - The Governor recommends General Fund appropriations to the Board at the base level of \$171,000 in the FY 2000-01 biennium. This funding level would support the current operation of the board with an adjustment for wage and salary inflation and a 3 percent per year increase for supply and expense inflation.

Board of Electricity - This agency receives no General Fund appropriations. The Governor recommends \$14.986 million from the Special Revenue Fund for the Board's FY 2000-01 appropriation. The Board's budget reflects an increase for upgrade and development of its information technology system, and the possible need to hire 16 additional contract inspectors in FY 2001 if the Minnesota economy continues to grow at the current pace. The Governor has also tentatively concurred with the Board's request to increase the electrical inspection fee schedule in FY 2001, contingent upon a thorough review by the Department of Finance of the board's current fee schedule, costs and reserves.

Department of Labor & Industry - The Governor recommended that the Department's FY 2000-01 General Fund appropriation be set at \$7.814 million, a decrease of \$591,000 from the base level. The major changes in the Agency's budget plan are:

- \$764,000 increase for a new codes and inspection system to improve the agency's licensing and inspection of boilers, pressure vessels, boats-for-hire, hobby boilers, and high pressure and ammonia piping systems. Non-dedicated user fees would be increased by \$366,000 per year beginning in FY 2001 to recover the cost of this initiative.
- \$24,000 increase in one-time FY 2000 funding as the General Fund share of a technology initiative to rewire the agency's existing technical infrastructure network and procure an end-user reporting tool. The remaining \$691,000 of this initiative's cost would be paid for from the Workers Compensation Fund.
- \$1.379 million decrease in funding through the elimination of state regulation of apprenticeships.

Labor Interpretive Center - The Governor recommends that the Labor Interpretive Center be eliminated and its purpose and responsibilities be transferred to the Minnesota Historical Society. The recommendation, if enacted, would result in General Fund savings of \$447,000 in FY 2000-01. (The net savings will be \$337,000 because the Historical Society would receive a one-time \$110,000 appropriation in FY 2000 to fund the transfer under the Governor's recommendation).

Bureau of Mediation Services-The Governor recommends General Fund appropriations at the base level of \$4.310 million in FY 2000-01. No new initiatives are recommended.

Public Utilities Commission - The Governor recommends that the FY 2000-01 General Fund appropriation be set at \$7.661 million, an increase of \$188,000 over base. The increase reflects the Commission's request to hire 2 new staff for additional workload attributable to telecommunications industry deregulation. It is estimated that the Commission's non-dedicated revenues will increase by \$511,000.

Department of Public Service - The Governor recommends General Fund appropriations of \$21.074 million in FY 2000-01, a \$530,000 increase over base. The recommended increase reflects:

- \$262,000 to fund 2 new engineering positions to evaluate the capacity issue in electric generation, transmission and distribution.
- \$268,000 to fund 3 new rate analysts to handle additional work associated with telephone rate filings.

Both of the above initiatives will be funded with increased non-dedicated fee revenues which are expected to increase by \$530,000 in FY 2000-01.

Minnesota Historical Society (MHS) - The Governor recommends that MHS receive a \$50.334 million appropriation from the General Fund in the FY 2000-01 biennium. The recommendation is \$2.038 million more than base funding, and encompasses the following initiatives:

- \$1.142 million for salary increases approved in the 1998 First Special Session, but only funded as a one-time appropriation.
- \$736,000 increase for information technology.
- \$50,000 for asset preservation and repair.
- \$110,000 to merge the Labor Interpretative Center into the Society's mission. This appropriation would be one-time in FY 2000 only.

The Governor's MHS budget submission also includes \$735,000 in one-time appropriations from the Minnesota Future Resources Fund, and \$425,000 in appropriations from the Environmental and Natural Resource Fund. The projects that these appropriations would fund are recommended by the Legislative Commission on Minnesota Resources:

- \$175,000 to purchase land adjacent to the Lower Sioux Agency, the Jeffers Petroglyphs and the Liver Kelly Farm sites.
- \$50,000 to identify and protect traditional cultural places of Minnesota Indian people.
- \$250,000 to improve public access to the *Traverse des Sioux* state historic site.
- \$90,000 to create interactive, mini-documentaries in Internet format.
- \$120,000 to digitize and distribute historic timberland survey records.
- \$150,000 for the Gibbs Farm Museum Interpretation project.
- \$90,000 for the Minnesota River Watershed Ecology and History exhibit.
- \$110,00 for Murphy's Landing improvements.
- \$250,000 for the Old Wadena Historic Site development.

Minnesota Municipal Board - The Governor recommends that \$162,000 in General Fund monies be appropriated to the board to fund its operations for the first 6 months of FY 2000. Under current state law, the Municipal Board will sunset December 31, 1999, and its duties, responsibilities, staff and assets will transfer to the Office of Strategic and Long Range Planning.

Council on Black Minnesotans - The Governor recommends a \$649,000 General Fund appropriation for the FY 2000-01 biennium. The recommendation includes \$25,000 each year in FY 2000 and FY 2001 to cover the costs associated with the board's work in organizing the Martin Luther King Jr. Holiday program.

Chicano Latino Affairs Council - The Governor recommends a \$638,000 General Fund appropriation in FY 2000-01. This appropriation is at the base budget level. It includes no new initiatives, programs or staff.

Council on Asia-Pacific Minnesotans - The Governor recommends the Council's General Fund appropriation in FY 2000-01 at the base level of \$563,000.

Minnesota Indian Affairs Council - The Governor recommends a \$1.118 million General Fund appropriation in FY 2000-01. This appropriation is at the base level.

Workers Compensation Court of Appeals - This agency receives no General Fund appropriation. The Governor recommends an appropriation in FY 2000-01 from the Workers Compensation Special Fund at the base level of \$3.128 million.

Iron Range Resources and Rehabilitation Board - The Governor recommends the base level General Fund open appropriation of \$1.336 million for FY 2000-01. The Governor also recommends that \$82.614 million be appropriated to the Board from the Iron Range Resources and Rehabilitation Fund and the Northeast Minnesota Economic Protection Plan in FY 2000-01.

For additional information on Jobs and Economic Development Finance issues, contact Ron Soderberg at 651-296-4162, or Ron.Soderberg@house.leg.state.mn.us

State Government Finance

The Governor recommends a total General Fund appropriation of \$710.4 million for the state departments and programs under the jurisdiction of the State Government Finance committee. This recommended amount is a decrease of \$42.7 million from current spending in the FY 1998-99 biennium. This decrease chiefly reflects one-time appropriations for the Year 2000 project and the Persian Gulf Veterans' bonus.

Department of Administration - The Governor recommends a direct General Fund appropriation of \$39.2 million for the biennium, an decrease of \$23.1 million from current spending. The decrease reflects several one-time appropriations made by the 1997 and 1998 Legislatures, including \$27.4 million for the Year 2000 project and \$4.5 million for repair and maintenance of state agencies. New spending initiatives for the FY 2000-01 biennium total \$11.6 million:

- \$2.5 million for Year 2000 contingency funds.
- \$2.2 million for infrastructure development related to the "Connecting Minnesota" fiber optic network initiative.
- \$4.4 million in total for 3 different pieces of the Electronic Government Services initiative: \$1.175 million to provide directory services infrastructure, \$1.86 million to conduct security impact analysis and planning, and \$1.4 million to establish a statewide encryption infrastructure.
- \$1.1 million to replace expiring federal funding for the STAR (System of Technology to Achieve Results) program, which provides technology-related assistance to individuals with disabilities. \$900,000 of this amount is for base funding, and \$210,000 is one-time funding to begin an Augmentative and Alternative Communication grant program.
- \$520,000 for security equipment replacement and upgrades in the Capitol Complex.
- \$500,000 increase in funding for the Employee Assistance program.
- \$253,000 to increase the MAILCOMM division's budget to cover increased salary costs.
- \$100,000 in permanent funding for a new Citizens' Suggestion web site.

The Governor recommends eliminating the Office of the State Archaeologist. If enacted, elimination of this office would result in a General Fund savings of \$388,000 for the biennium.

The Governor also recommends that \$9.458 million collected through state agencies rent be retained in the Plant Management Internal Service Fund for repair and preservation of buildings and facilities. This money was previously collected for building depreciation and deposited in the General Fund as a non-dedicated receipts.

In non-General Fund initiatives, the Governor recommends an increase of \$1.37 million from the State Government Special Revenue Fund to cover anticipated increased in the Metropolitan Radio Board budget.

Administrative Hearings - This agency is supported by the Workers' Compensation Special Fund and does not receive General Fund money. The Governor recommends direct appropriations of \$13.5 million for the biennium.

Amateur Sports Commission(MASC) - The Governor recommends a total of \$2.76 million for the biennium, a decrease of \$5.9 million from current spending. This decrease reflects one-time "Mighty Ducks" ice arena grants and one-time "Mighty Kids" youth recreation grants.

State Arts Board - The Governor recommends \$26.2 million for the biennium, a decrease of \$44,000 from current spending.

Capitol Area Architectural Planning Board (CAAPB) - The Governor recommends \$608,000 for the biennium to the CAAPB, a decrease of \$263,000 over current spending.

Campaign Finance and Public Disclosure Board (formerly Ethical Practices Board) - The Governor recommends a General Fund budget of \$1.42 million, an increase of \$343,000 over current spending. This recommendation includes an initiative of \$404,000 for an upgrade to the Campaign Finance software. The Governor also recommends funding a FY 1999 deficiency of \$15,000 to pay legal fees resulting from a litigation over the commercial use of board-collected information.

Constitutional Offices*

Attorney General's Office - The Attorney General's Office (AGO) requests \$51.3 million from the General Fund for the biennium, a decrease of \$5.5 million from current spending. The AGO's request includes \$1.9 million for information technology upgrades.

The Governor's recommended General Fund spending level for the AGO is \$51.1 million, a decrease of \$5.8 million from current spending. This recommendation includes \$1.85 million for salary and non-salary inflation. The Governor is also recommending a base increase of \$1.5 million to cover increased demands for legal services from both state agencies and local governments.

Other Funds

The AGO requests \$3.4 million from the State Government Special Revenue Fund for services provided to health related licensing boards. The AGO requests \$273,000 from the Environmental Trust Fund for investigating and prosecuting environmental crime. Within the Solid Waste Cleanup Fund, the AGO requests \$930,000 for the biennium for responsibilities associated with insurance claims settlements and recovery associated with landfills in the landfill cleanup program.

Governor's Office - The Governor requests \$8.2 million for the biennium, an increase of \$523,000 over current spending.

Secretary of State - The Secretary of State requests \$18 million for the biennium, an increase of \$4.95 million. This requested increase includes a base adjustment of \$3.5 million for the Presidential Primary as required under current law. New spending initiatives total \$2.54 million:

- \$2.5 million to convert microfilmed documents to a digital image format.
- \$18,000 increase to base to cover costs for training elected officials, and costs for testing voting equipment.
- \$10,000 for additional Geographical Information Systems (GIS) costs.

The Governor's recommended spending for this office is \$12.2 million, including an increase of \$505,000 for salary and non-salary inflation. Although the Governor does not comment on specific initiatives, he does recommend repealing the state presidential primary law. This repeal would reduce the Secretary of State's FY 2001 base by \$3.5 million.

State Auditor - The State Auditor's office requests \$18.68 million, an increase of \$3.1 million over current spending. Agency requested change items totaling \$2.2 include:

- \$1.3 million to increase salaries for prospective and recently hired auditors, in order to reduce staff attrition.
- \$294,000 to fund 2.5 additional positions for expanded oversight of pension fund investments.
- \$250,000 for additional information technology staff.
- \$196,000 to add staff to the Special Investigations Division.
- \$154,000 to recruit a human resources director .

The Governor's recommended spending for this office is \$16.57 million, including an increase of \$668,000 for salary and non-salary inflation.

State Treasurer - The State Treasurer requests \$4.6 million for the biennium, including \$75,000 for a portion of the Electronic Government Services technology initiative. The Governor's recommended spending for this office is \$4.5 million, including an increase of \$203,000 for salary and non-salary inflation.

Legislature - The Legislature does not participate in the executive agency budget process. Legislative budget requests will be available after their approval by House and Senate leadership.

The Governor recommends a total of \$117.9 million for the Legislature, a decrease of \$11,000 from current spending. This recommendation includes \$53.3 million for the House of Representatives, \$36.7 million for the Senate, \$16.6 million for the Legislative Coordinating Commission, and \$9.6 million for the Legislative Audit Commission.

Legislative Rent - The Governor recommends \$10.9 million for the biennium. In lieu of rent, the legislature appropriates funds directly to the commissioner of Administration to cover the costs of space used by the legislature, space occupied by the congressionally chartered veterans organizations, ceremonial space such as the capitol mall, and space occupied by the Services for the Blind vendors.

**Because of the separation of branches of government and constitutional offices, the Governor acknowledged the right of these offices to present their budgets directly to the legislature for consideration. The Governor does not comment on any specific initiatives requested by constitutional offices. However, the Governor's Budget does recommended overall spending levels for each office, including increases for both salary and non-salary inflation.*

Disabled American Veterans (DAV) - The Governor recommends \$26,000 for the biennium to the DAV, the same as current spending.

Department of Employee Relations (DOER) - The Governor recommends \$36.4 million, an increase of \$19.85 million over current spending. New initiatives total \$21.4 million:

- \$20 million to establish contingency reserves and self-insure all medical coverage provided to state employees through the State Employee Group Insurance Program (SEGIP).
- \$315,000 for the final phase of the Human Resources Management reform process.
- \$310,000 to implement an optional Long-Term Care insurance program for state employees.
- \$200,000 for a youth internship program at state agencies.

The Governor also recommends continuing open appropriation language for the Worker's Compensation Reinsurance.

Department of Finance - The Governor recommends a total of \$47.6 million for the biennium, a decrease of \$353,000 from current spending. The agency has one major change item, \$4.9 million to upgrade the state's personnel and payroll system.

Contingent Accounts - The Governor recommends \$1.95 million for the biennium. Of that number, \$200,000 is from the General Fund, \$800,000 from the State Government Special Revenue Fund, \$100,000 from State Airports Fund, \$400,000 from the Trunk Highway Fund, \$250,000 from the Highway User Tax Distribution Fund, and \$200,000 from the Workers Compensation Special Fund.

Tort Claims - The Governor recommends \$1.75 million for the biennium. Of this amount, \$500,000 is from the General Fund, and \$1.2 million is from the Trunk Highway fund.

Board of Government Innovation and Cooperation - The Governor recommends eliminating the Board, for a General Fund savings of \$2 million for the biennium.

Humanities Commission - The Governor recommends \$1.8 million, an increase of \$34,000 over current spending.

State Board of Investment - The Governor recommends \$4.7 million for the biennium, an increase of \$276,000 over current spending.

Lawful Gambling Control Board - The Governor recommends \$4.4 million for the biennium to the Lawful Gambling Control Board, a decrease of \$26,000 from current spending.

Minnesota Office of Technology - The Governor recommends a total of \$8.9 million for this office, a decrease of \$507,000 from current spending. This recommendation includes \$5.9 million for salaries and operating expenses, and \$3 million for two initiatives:

- \$2.3 million from the General Fund to provide basic technology infrastructure for small state agencies. This initiative also includes an additional \$428,000 from other funds.
- \$756,000 for continuation of the One-Stop Licensing project.

Minnesota Racing Commission - The Governor recommends a General Fund appropriation of \$792,000.

The Department of Military Affairs - The Governor recommends \$23.1 million for the biennium, an increase of \$715,000 over current spending. There are three initiatives:

- \$1 million each year to reduce the backlog of armory and airbase repair and maintenance.
- \$1.2 million to increase funding for enlistment incentives, including tuition reimbursement.
- \$70,000 to raise the level of support for National Guard unit operating costs.

Military Order of the Purple Heart - The Governor recommends \$40,000 for the biennium, the same as current spending levels.

Political Contribution Refunds - The Governor recommends \$7.8 million for the Political Contribution Refund program, a decrease of \$1.5 million over current spending. This is an open General Fund appropriation.

Public Broadcasting - The Governor recommends phasing out all state funding for Public Radio and Public Television over the next two bienniums.

- Public Radio: appropriations to Minnesota Public Radio and AMPERS stations would be reduced by 25 percent in FY 2000 and 50 percent in FY 2001. All state funding would be eliminated in the next biennium. For the FY 2000-01 biennium, the Governor's recommendation is \$1 million, a reduction of \$1.7 million from current spending.
- Public Television: appropriations to public television stations and Twin Cities Regional Cable would be reduced by 25 percent in FY 2001, with the remaining reductions taken in the FY 2002-03 biennium. The Governor's recommended appropriation for this biennium is \$3.6 million, a decrease of \$1.2 million from current spending.
- Legislative Television appropriations would remain at base spending levels of \$882,000.

Public-Local Employees Retirement - Five state retirement programs under the State Government Finance committee's jurisdiction receive no direct General Fund appropriation. These programs are funded through either open

or statutory appropriations. The funds include: 1) the MN State Retirement System; 2) the Public Employees Retirement Association; 3) Teachers Retirement Association; 4) Local Police-Fire Amortization Aid; and finally, 5) 1st Class City Teachers State Aid. The total open General Fund appropriations for these funds are \$61.3 million.

The Minneapolis Employees Retirement Fund (MERF) is the only retirement fund that receives a direct General Fund appropriation. The Governor's recommendation for MERF is \$12.9 million.

Department of Revenue - The Governor recommends \$181.7 million for the biennium, an increase of \$13.6 million over current spending. New spending items total \$9.3 million:

- \$8 million for re-engineering the computer systems and business processes supporting the state's Income Tax system.
- \$870,000 for furniture lease payments.
- \$250,000 for a digital telephone system.
- \$190,000 for a network security firewall.

Office of Strategic and Long Range Planning (Minnesota Planning) -The Governor recommends \$12 million for the Office of Strategic and Long Range Planning, an increase of \$1.8 million over current spending. Four new initiatives are included:

- \$1.8 million to conclude the General Environmental Impact Study (GEIS) on animal feedlots. The 1998 Legislature appropriated \$1.2 million to the Environmental Quality Board for the initial phase of the GEIS.
- \$500,000 to create an information technology unit headed by a Chief Information Officer.
- \$400,000 to establish a new program evaluation function within the executive branch.
- \$100,000 for a one-time appropriation to promote the 2000 Census.

The Department of Veterans Affairs - The Governor recommends \$13.9 million for the biennium, an decrease of \$11.9 million from current spending. A carryover of \$5.1 million for the Persian Gulf bonus is included in total spending recommendations. Governor's initiatives include:

- \$257,000 increase in base funding for Guardianship activities.
- \$167,000 increase in base funding to cover increased agency head salaries and other personnel costs..

Veterans of Foreign Wars (VFW) Claims and Service Office - The Governor recommends \$82,000 for the VFW Claims and Service Office, the same as current spending.

For more information on State Government Finance issues, contact Helen Roberts, 651-296-4117 or Helen.Roberts@house.leg.state.mn.us.

Transportation Finance

The Governor's budget for the Department of Transportation and related agencies is similar, in many respects, to other recent transportation budgets. In past years, budgets have included moderate increases in transit funding, construction program increases that have reflected the growth of the transportation trust funds, and several small agency initiatives.

With the exceptions of a light rail grant and a proposal to reduce tab fees, Governor Ventura's transportation budget is similar to the last several biennia. Highlights from the Governor's budget include;

Department of Transportation (MN/DOT)

- \$1 million annually for constructing and maintaining Minnesota's airport facilities.
- \$200,000 annually for technology training of airport employees.
- \$1.85 million annually for Greater Minnesota Transit assistance. This money will maintain service level increases funded last biennium.
- \$60 million from the General Fund to pay for the remaining proposed state share of the Hiawatha Light Rail project. It is believed that this money is necessary to secure over \$200 million in federal dollars.
- \$1.6 million is for 2000 Census Transportation Planning. MN/DOT, in conjunction with the Met Council, must develop a transportation plan to qualify for federal funds.
- \$30.1 million in FY 2000 and \$32.65 million in FY 2001 is added for engineering and construction of the trunk highways. The increase is primarily due to a higher level of federal funds in the TEA-21 bill, as well as slight growth in state funds.
- \$1.6 million from the trunk highway fund and \$1.6 million from the General Fund for additional capital equipment for the metro 800 MHZ radio system.
- \$1.3 million in FY 2000 and \$1.4 million in FY 2001 for an increase in freeway operations enhancements.
- \$1 million annual increases in the maintenance program.
- \$6 million for additional pavement striping. An annual addition of \$4 million will be made to the base of a \$2.5 million program by the end of the biennium.
- \$950,000 annual increase for technology related safety items.
- \$750,000 annual increase for the "Transportation Worker Concept."
- A \$2.5 million increase in information technology funding.
- \$8.25 million for remodeling and rehabilitation of MN/DOT owned buildings.

Implications:

It is unclear whether the \$60 million for light rail would be necessary this year as match for a project still a few years away. Advocates argue that the money is needed to show a firm state commitment to the project, and secure federal funds in a competitive process. The states' proposed portion of the project is \$100 million, with \$40 million provided in last years Capital Investment bill.

TEA-21 has provided an sizable increase in federal dollars and allowed MN/DOT to request a \$527 million annual construction program. This is up from a requested level of \$413 million in FY 1998. The growth of construction funding should allow for some acceleration of projects from MN/DOT's estimates just two years ago.

Governor Ventura's proposal for a cutting license "tab" fees could have the greatest effect on transportation funding. The current system imposes a tax of 1.25 percent of the base value when a car is purchased new. That fee decreases over a ten year period to a flat fee of \$35 per year. The Governor proposes paying the full license tab fee the first year, a maximum fee of \$75 the second year, then declining fees until the reaching the \$35 minimum. This proposal results in a loss to the Highway User Tax Distribution Fund of \$95 million in FY 2000 and \$204 million in FY 2001. The Governor recommends replacing these dollars with a General Fund appropriation.

The danger of this proposal is that it reduces a constitutionally dedicated source, and replaces the funds for state and local roads with a source that does not have the same constitutional guarantee. Without an amendment to the constitution dedicating the dollars from the General Fund, (such as an MVET dedication) the dollars could easily be shifted by the legislature to other uses such as education or social services. This would subject more than \$200 million of annual transportation funding to competition with other programs.

Metropolitan Council Transit - The Governor requests an additional \$4.95 million annually to maintain service levels for Regular Route and Metro Mobility, as well as \$2.5 million annually to increase service and reliability.

Department of Public Safety

- \$200, 000 annually to fully fund the bullet proof vest reimbursement program.
- An increase of close to \$400,000 per year for executive protection. This is to fund additional positions and purchase equipment to protect the governor and his family.
- \$694,000 annually for State Patrol communications infrastructure.
- \$1.67 million is requested for a new helicopter for the patrol.
- A base increase of over \$700,000 annually is requested by the State Patrol to run the recruit training academy.
- \$2.5 million for FY 1999, \$2.5 million for FY 2000, and \$3.4 million for FY 2001, is requested to pay costs for services performed by the Attorney General.
- \$309,000 in FY 2000 and \$271,000 in FY 2001 is requested to allow citizens to perform vehicle related transactions over the Internet.
- \$1.8 million is requested for the biennium to improve service at driver testing facilities.
- \$1.6 million is requested for increasing costs of license plate production.

Minnesota Safety Council - The Governor includes an increase of \$28,000 per year to fund initiatives that promote children's safety and older driver safety clinics.

Capital Investment

The Governor does not recommend any new capital projects for the 1999 legislative session. Governor Ventura's budget does include \$578 million in debt service for the biennium to cover principal and interest payments on the nearly \$2.5 billion in existing bonds outstanding. The Governor also provides enough debt service for \$450 million in new bonds for the next biennium.

Governor Ventura's proposal of \$450 million in new bonding is well within the state's capacity to borrow. During the last session, the Governor and legislature based the capital investment bill on the Minnesota's ability to issue bonds and remain within the three percent guideline. This guideline states that the debt service appropriation should not exceed three percent of non-dedicated revenues. This guideline would allow for borrowing in excess of \$900 million in the 2000 session capital investment bill. Former Governor Carlson included planning estimates for \$750 million in new bonds for the 2000-2001 biennium in the November 1998 forecast. It is unclear if the Governor will limit his proposal to \$400 million in the 2000 session and \$50 million in 2001 if additional surplus dollars become available next session.

As part of the Governor's rebate plan, \$400 million of capital projects currently funded with cash would be converted to bonds so that the funds could be rebated to the public. The \$400 million represents projects that were originally bond

financed, and converted to cash by the Commissioner of Finance. Language in the 1998 tax bill directed the Commissioner to use future surplus dollars for the conversion of bonds to cash, a deposit to the tax reform account, and a reimbursement to the budget reserve. The first conversion of bonds to cash increased the cash financing of the 1998 Capital Investment bill to \$900 million out of \$1 billion in total projects.

The debt service required will vary depending on the legislature's willingness to convert the cash projects back to bonds. Table 9 below is a required debt service comparison of the original Carlson administration planning estimate of \$750 million in new bonds for the 2000-2001 biennium and Governors Ventura's proposal of \$450 million for the biennium. [Table 9](#) shows debt service requirements with and without the \$400 million conversion of cash back to bonds.

Table 9

New Bonds Issued 2001 Biennium	2000-01 Debt Service	2002-03 Debt Service
\$750 million	\$544 million	\$561 million
\$450 million	\$526 million	\$518 million
\$450 million + conversion	\$578 million	\$590 million

For more information on Transportation Finance or Capital Investment issues, contact John Walz at 651-296-8236 or John.Walz@house.leg.state.mn.us

Table 10

**Governor's Tax Revenues Recommendations, FY 2000-01 Budget
Tax Revenue Increases (Decreases) Compared to November 1998 Forecast**

	\$ in millions			
Income Tax Revenues	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 00-01</u>
Income Tax Reduction	(\$0.000)	(\$492.300)	(\$351.400)	(\$843.700)
Conform ("Update") to 1998 Federal Law Changes	\$9.610	\$8.370	\$5.355	\$13.725
Interaction: Lower itemized deductions due to lower motor vehicle registration fees	\$0.000	\$0.000	\$8.500	\$8.500
Subtotal, Income Taxes:	\$9.610	(\$483.930)	(\$337.545)	(\$821.475)
Sales and Use Taxes, Excise Taxes				
Sales Tax Rebate	(\$1,087.300)	\$0.000	\$0.000	\$0.000
Provide Up-Front Exemption for Capital Equipment	\$0.000	\$0.000	(\$98.000)	(\$98.000)
Repeal of June Accelerated Payments – Sales & Use Tax	\$0.000	(\$139.500)	\$(6.600)	(\$146.100)
– Cigarette Tax	\$0.000	(\$12.000)	\$0.000	(\$12.000)
– Alcohol Taxes	\$0.000	(\$3.800)	\$0.000	(\$3.800)
Exempt Most Inputs Used to Produce Television Commercials	\$0.000	(\$1,000)	(\$1.100)	(\$2.100)
Exempt State Hospital and Veteran's Homes Purchases	\$0.000	(\$0.600)	(\$0.600)	(\$1.200)
Subtotal for Sales and Use Taxes, Excise Taxes:	(\$1,087.300)	(\$156.900)	(\$106.300)	(\$263.200)
Other Taxes				
Simplify Insurance Premiums Tax Retaliatory Provisions	\$0.000	(\$0.035)	(\$0.070)	(\$0.105)
Reduce Motor Vehicle Registration Tax*	\$0.000	(\$95.700)	(\$191.400)	(\$287.100)
Reduce Solid Waste Management Tax for Self-Haulers	\$0.000	(\$0.200)	(\$0.200)	(\$0.400)
Exempt Educational Institutions from MinnesotaCare Tax	\$0.000	(\$0.010)	(\$0.020)	(\$0.030)
Exempt Services to Nursing Homes from MinnesotaCare Tax	\$0.000	(\$0.005)	(\$0.010)	(\$0.015)
Subtotal, Other Taxes:	\$0.000	(\$95.950)	(\$191.700)	(\$287.650)
Local Aids and Credits				
Abatement Aid for Counties (to aid farmers)	(\$10.000)	\$0.000	\$0.000	\$0.000
Delay Increase in Family Preservation Assist., HACA Transfer	\$0.000	\$0.000	\$20.000	\$20.000
Subtotal, Local Aids and Credits:	(\$10.000)	\$0.000	\$20.000	\$20.000
Total, General Fund:	(\$1,087.690)	(\$737.350)	(\$616.400)	(\$1,352.280)
Total, Health Care Access Fund:	\$0.000	(\$0.015)	\$(0.030)	(\$0.045)
Total, All Funds:	(\$1,087.690)	(\$737.365)	(\$616.430)	(\$1,352.325)
))	

*Appropriation from the General Fund to the Highway User Trust Fund.

Tax Revenues, Local Aid and Credits

The Governor recommends a \$1,087.7 million reduction in General Fund tax revenues in FY1999. During the FY 2000-01 biennium, the Governor's tax proposals include \$1,352.3 million in net tax reductions and new tax expenditures.¹ Of the total for the biennium, \$450,000 are reductions in the Health Care Access Fund, and the rest (\$1,352.28 million) are reductions in the General Fund.

FY 1999 Sales Tax Rebate

The Governor recommends rebating \$1,087.3 million of sales taxes paid by Minnesota residents during the FY 1998-99 biennium. The rebate amounts would equal approximately 35 percent of the estimated consumer sales taxes paid by eligible households during the past two years. Only those who claimed a property tax rebate on their 1997 Minnesota income tax return (or do so before April 15, 1999) would be eligible for this rebate. The maximum rebate would be \$2,000 for those filing married-joint, qualifying widow, or head-of-household returns; and \$1,000 for those filing single or married-separate returns. No taxpayer application would be necessary. Amounts would be automatically calculated by the Department of Revenue based on existing data. Of the \$1,087.3 million, up to one million dollars would be available to administer the rebate.

Income Taxes

Income Tax Reductions - The Governor recommends changes in income tax brackets and rate structure that will reduce state income tax collections by \$843.7 million in the 2000-2001 biennium. The proposed changes include:

- Reduce the "marriage penalty" by increasing the tax brackets for joint filers to twice those for single filers.
- Reduce the lowest bracket tax rate from 6 percent to 5.8 percent for 1999 returns and to 5.75 percent for 2000 returns.
- Expand the range of the lowest tax bracket, so more income will be taxed at the lower rate.

Under current law, many two-earner married couples experience a marriage penalty, though other couples – where one spouse earns much more than the other – currently experience a "marriage bonus." The Governor's proposal reduces or eliminates existing marriage penalties for many taxpayers, but a marriage penalty remains in some cases for the following reasons:

- The standard deduction for joint returns is less than twice that for singles, so married taxpayers start paying tax at incomes less than twice the level singles begin paying tax.
- The tax brackets for joint returns are less than twice those for head-of-household returns.

¹ **Tax Expenditure** – Revenue loss attributable to tax preferences such as tax exemptions, deductions, reduced rates, credits, and deferrals of liability. Tax expenditures are alternatives to direct expenditures or mandates in promoting public policy goals. Unlike direct appropriations, tax expenditures usually are not time-limited and need not be reenacted to remain in effect. The Department of Revenue calls a provision a *tax expenditure* if it meets *all* of the following criteria: It (1) has an impact on a tax that is applied statewide; (2) confers preferential treatment; (3) results in reduced tax revenue in the applicable fiscal years; (4) is not an appropriation; (5) is included in the defined tax base; (6) is not subject to an alternative tax; and (7) can be amended or repealed by changes in state law alone.

- Tax credits (including the working family credit, the child and dependent care credit, and the education credits) include marriage penalties, as does the Alternative Minimum Tax (AMT) and a large number of federal provisions that are used to define Minnesota taxable income.

Conform to Changes in Federal Income Tax Laws - The Governor proposes to conform to the 1998 changes in federal income tax laws, which would increase tax revenues by \$9.6 million in FY 1999 and by \$13.7 million in the 2000-2001 biennium – including a \$3.5 million increase in individual income taxes and a \$10.2 million increase in corporate income taxes.

Ten specific federal changes, if adopted by Minnesota, would have revenue implications for state revenues. Changes that increase revenue during the 2000-2001 biennium include: revised treatment of employer deductions for vacation and severance pay (+ \$5.8 million); new rules for Regulated Investment Companies and Real Estate Investment Trusts (+ \$5.7 million); and making trade receivables ineligible for mark-to-market treatment (+ \$3.3 million). Changes that reduce state revenue include: extending the net operating loss carryback for farmers (-\$0.9 million); and rules concerning donations of appreciated stock to private foundations (-\$0.5 million).

Redefine Business Income for Corporations - Recent court rulings (*Hercules Inc. vs. Commissioner of Revenue* and *Fistar Corp vs. Commissioner of Revenue*) have changed the way taxable corporate income is defined for some companies doing business both in Minnesota and in other states. The Governor recommends that (1) Minnesota adopt a definition of business income that requires such corporations to report income as business income to the extent allowed by the U.S. Constitution, and (2) Minnesota *not* assess additional tax on previously filed returns if the corporation followed the Department of Revenue's interpretation of the law.

Although there is no cost to this proposal in the 2000-2001 biennium, the changes would reduce revenues by an estimated \$1.5 million in FY 2003. The delayed impact reflects the time needed to audit corporations and force them to file amended returns for prior years.

Sales and Use Taxes, and Excise Taxes

Up-Front Exemption for Capital Equipment - Although some business purchases of capital equipment are currently exempt from sales tax, sellers are required to collect the tax and then purchasers must apply for a refund. The Governor proposes to eliminate the refund process and replace it with an up-front exemption, effective for purchases made on or after July 1, 2000. Taxpayers would provide an exemption certificate to their supplier to exempt the item at the time of purchase. The change would reduce tax revenues by \$98 million in FY 2001. Part of the revenue loss in the first year reflects a one-time shift because of the switch to immediate exemption rather than delayed refund; and part of the projected revenue loss is due to an expected increase in participation, because some who are currently eligible to apply for refunds do not do so.

The definition of exempt capital equipment is not changed by the Governor's proposal. As under current law, the exemption applies only to capital equipment that is used in Minnesota by the purchaser or lessee for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail. Capital equipment includes replacement equipment (including repair and replacement parts and accessories). Equipment is exempt only if it is essential to the integrated production process.

Repeal of June Accelerated Payments - The accelerated June payment was adopted by the Legislature in 1982 to create a one-time budget savings to alleviate a budget shortfall. It moves most of one month's sales tax collections into the previous fiscal year. The accelerated payment requires large sales taxpayers – those with annual liabilities of \$120,000 or more – to pay 75 percent of their estimated June liability before the end of June and then file a

reconciliation payment in August. The normal date for remitting sales tax for large retailers is the 14th day of the following month, when the actual liability is known. The accelerated payment rules also apply to excise taxes on cigarettes and alcohol paid by large retailers.

The Governor recommends repealing the June accelerated payment for all tax types. As a result, large retailers would follow the same collection and remittance procedures for June as they do for the other months of the year. This would reduce tax collections in FY 2000 by \$155.3 million – \$139.5 million in sales taxes, \$12 million in cigarette taxes, and \$3.8 million in alcohol taxes. There is a much smaller impact in later years; with sales tax revenues rising each year, the gain in each fiscal year's July revenues is less than the loss in its June revenues. Combined tax collections fall by only \$6.6 million in FY 2001, so the total for the 2000-2001 biennium is \$161.9 million. (The revenue impact in later years is similar to that in FY 2001.)

Exempt Most Inputs Used in Producing Television Commercials - The Governor's proposal to exempt these inputs (effective July 1, 1999) will reduce sales tax revenues by \$2.1 million in the 2000-2001 biennium. Final sales of advertising and promotional materials sold on a tangible medium such as tape, film, or printed matter would remain subject to sales tax.

Exempt Purchases by State Hospitals and Veteran's Homes - The Governor's proposal to exempt these purchases (effective July 1, 1999) will reduce sales tax revenues by \$1.2 million during the 2000-2001 biennium.

Other State Taxes

Insurance Taxes - The Governor proposes to clarify and simplify the retaliatory provisions of the insurance premiums tax. Retaliatory provisions are applied on insurance companies from other states if their home state discriminates against Minnesota-based insurance companies. The proposed changes will reduce insurance tax collections by \$105,000 in the 2000-2001 biennium. Minnesota companies will not be exposed to retaliation in other states in response to the proposed change in law.

Motor Vehicle Registration Tax - The Governor proposes to reduce motor vehicle registration taxes effective for registrations after January 1, 2000. The proposed changes would reduce tax collections by \$278.6 million during the 2000-2001 biennium.

Currently, the registration tax is based on a combination of purchase value and age. The tax rate is \$10 plus 1.25 percent of the "base" -- defined as manufacturer's suggested retail price plus destination charge. The base is reduced over a ten year period down to a flat rate of \$35. The Governor's proposal retains the current rate structure, but it sets a maximum tax of \$75 for all except the initial year's registration. The initial year's registration tax for new vehicles will remain unchanged from current law.

Motor vehicle registration taxes are deposited in the Highway User Tax Distribution Fund. To offset this reduction in revenue, the Governor proposes an offsetting transfer from the General Fund to the Highway Fund – \$95.7 million in FY 2000 and \$191.4 million in FY 2001.

Because motor vehicle registration fees are deductible by income tax filers who itemize deductions, the proposed reduction in registration taxes will reduce the amount of itemized deductions claimed by Minnesota residents. With lower itemized deductions, they will pay more in state income taxes, which will rise by \$8.5 million in FY 2001. This higher income tax revenue offsets a small part -- about 5 percent -- of the reduced registration tax's impact on the General Fund.

Solid Waste Taxes - The Governor proposes to reduce the solid waste management tax for “self-haulers” – defined as a person who transports solid waste generated by that person or another person without compensation – to the same rate (9.75 percent) imposed on the sales price of solid waste management services purchased by residential households. Currently, self-haulers pay the same rate as commercial haulers (17 percent). The Governor’s proposal will reduce the General Fund by \$400,000 during the 2000-2001 biennium.

MinnesotaCare Taxes - The Governor recommends two changes in MinnesotaCare taxes, which will reduce the Health Care Access Fund by a total of \$45,000 during the 2000-2001 biennium, including:

- A \$30,000 biennial expenditure to exempt schools and other educational institutions if they are reimbursed for their services entirely by government payments or through tuition costs. Schools that receive separate non-government payments for patient services will still be subject to tax.
- A \$15,000 biennial expenditure to exempt services provided directly to nursing homes. Services provided to individual nursing home residents will still be subject to tax.

Property Taxes and Local Government Aids

The Governor’s budget for the 2000-2001 biennium includes no recommended changes in how local property taxes are calculated or collected, but it does recommend increasing abatement aid for farmers, extending levy limits for a few years, and delaying a planned increase in funding for Family Preservation Aid.

As explained below, the Governor plans to include a major redesign of the current system of local government aids and property tax relief in his 2002-2003 biennial budget.

Abatement Aid to Counties for Relief of Farmers in FY 1999 - The Governor proposes to appropriate \$10 million in property tax abatement aid to Minnesota counties to help them abate all or a portion of farm property tax payments for those in need of financial assistance. County boards would receive expanded authority to provide tax relief to farmers on a case-by-case basis.

Extend Levy Limits Through 2002 - The Governor proposes to extend levy limits until a major redesign of the current system of local government aids and property tax relief is put into effect.

Delay Increased Funding for Family Preservation Aid - The Governor proposes to delay the increase in funding and the transfer of Homestead Agricultural Aid (HACA) to Family Preservation Aid from 2001 to 2003. This will provide a one-time savings to the General Fund of \$20 million in FY 2001. The Governor also recommends not transferring \$10 million of Homestead Agricultural Credit Aid to the FPA program in FY 2001.

Redesign Local Government Aid and Property Tax Relief for FY 2003

The Governor proposes to eliminate all major local government aid and property tax relief programs, effective in FY 2003. The money appropriated for these programs – including Homestead Agricultural Credit Aid (HACA), City and Township Local Government Aid (LGA), Educational Homestead Credits, Property Tax Refunds, Criminal Justice Aid, and Family Preservation Aid – will be transferred to the proposed Transitional Aid Reform Account.

The Governor’s objective is to adopt recommendations from a Tax Reform Study Commission, and the Governor’s 2002-2003 biennial budget will propose a newly designed system of local government aids and property tax relief, using the \$1,633 million transferred to the new account.

For additional information on Taxes, Local Aids and Credits, contact Paul Wilson at 651-296-8405 or Paul.Wilson@house.leg.state.mn.us, or Matt Massman at 651-296-7171 or Matt.Massman@house.leg.state.mn.us.

